



# 優然牧業

YOURAN DAIRY

China Youran Dairy Group Limited

中國優然牧業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9858



# 2023

## INTERIM REPORT



## Company Profile

The Company was listed on the Stock Exchange on June 18, 2021 (stock code: 9858.HK). The Group is a leader in China's upstream dairy market with business covering the entire upstream dairy industry chain from breeding, feed to raw milk production, and has achieved a leading position in all business segments.

As of June 30, 2023, the Group operated 85 dairy farms, 15 feed mills, 15 forage grass plantation bases, 3 key breeding bases and a dairy industry chain platform, with a herd size of dairy cows of nearly 540,000 heads. For six months ended June 30, 2023, the Group's raw milk production was approximately 1.44 million tons and the production volume of concentrated feed of the Group was approximately 0.58 million tons; the quality of the Group's self-produced alfalfa hay all reached grade A or higher and its protein content reached highest quality level of American alfalfa hay; the Group provided ruminant farming products, which cover core operations of dairy farms through its online platform, "Jumuc.com" and 28 offline pick-up stores; the sales volume of the Group's breeding products reached 674,000 straws/units and the Group produced approximately 57,000,000 sex-sorted breeding embryos, making us one of the dairy companies in China that pioneered the large-scale production and commercial application of sex-sorted embryos of high-yield dairy cows. Besides, the Group's specialty raw milk is not only based on Jersey milk, DHA milk, A2 milk, organic milk, organic A2 milk, selenium-rich milk and organic Jersey milk etc, but also covers goat milk. Currently, the first flock of imported and pure Saanen dairy goats originated from New Zealand and Australia arrived at the farms, which will further enrich the Group's supply matrix with specialty raw milk.

The Group is determined to lead the China's dairy farming industry in terms of quality development, and is committed to manufacturing and offering high-quality products, technologies and services, as well as improving its comprehensive competitiveness, repaying customers and Shareholders with superior products and excellent performance for their support for the Group, and continuously contributing to the healthy development of the China's dairy farming industry.



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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Yuan Jun (袁軍) (*President*)

Mr. Dong Jiping (董計平)

### Non-Executive Directors

Mr. Zhang Yujun (張玉軍) (*Chairman*)  
(*resigned on July 28, 2023*)

Mr. Wu Xiang (武翔) (*Chairman*)  
(*appointed on July 28, 2023*)

Mr. Xu Jun (徐軍)

Mr. Xu, Zhan Kevin (許湛)

Mr. Qiu Zhongwei (邱中偉)

### Independent Non-executive Directors

Ms. Xie Xiaoyan (謝曉燕)

Mr. Yao Feng (姚峰)

Mr. Shen Jianzhong (沈建忠)

## AUDIT COMMITTEE

Ms. Xie Xiaoyan (謝曉燕) (*Chairman*)

Mr. Yao Feng (姚峰)

Mr. Qiu Zhongwei (邱中偉)

## REMUNERATION COMMITTEE

Mr. Shen Jianzhong (沈建忠) (*Chairman*)

Ms. Xie Xiaoyan (謝曉燕)

Mr. Xu Jun (徐軍)

## NOMINATION COMMITTEE

Mr. Yao Feng (姚峰) (*Chairman*)

Mr. Shen Jianzhong (沈建忠)

Mr. Xu, Zhan Kevin (許湛)

## COMPANY SECRETARY

Ms. Yu Wing Sze (余詠詩)

## AUTHORIZED REPRESENTATIVES

Mr. Dong Jiping (董計平)

Ms. Yu Wing Sze (余詠詩)

## AUDITOR

Deloitte Touche Tohmatsu

*Certified Public Accountants*

*Registered Public Interest Entity Auditor*

## REGISTERED OFFICE

89 Nexus Way

Camana Bay, Grand Cayman

KY1-9009, Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 169, Hexi Road, Saihan District

Hohhot, Inner Mongolia

China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F., Tower Two

Times Square

1 Matheson Street, Causeway Bay

Hong Kong

## Corporate Information

### LEGAL ADVISORS

*As to Hong Kong law*

Skadden, Arps, Slate, Meagher & Flom and affiliates

*As to Cayman Islands law*

Ogier

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ogier Global (Cayman) Limited

89 Nexus Way

Camana Bay

Grand Cayman, KY1-9009

Cayman Islands

### HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

17/F, Far East Finance Centre

16 Harcourt Road

Hong Kong

### PRINCIPAL BANKERS

Bank of Communications

Inner Mongolia Region Branch

Fengye Mansion, No. 110, Daxue Road West

Hohhot, Inner Mongolia

China

### STOCK CODE

9858

### COMPANY WEBSITE

<https://www.yourandairy.com/>

## Highlights

	Six months ended June 30,		Period-on-period change (%)
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	
Revenue	9,076,655	8,706,955	4.2
Gross profit	2,093,170	2,096,933	(0.2)
(Loss)/profit attributable to owners of the Company	(992,017)	219,326	N/A
Non-IFRSs measures:			
Cash EBITDA <sup>Note 1</sup>	1,805,286	1,837,606	(1.8)
Profit for the period (before biological assets fair value adjustments) <sup>Note 2</sup>	1,019,399	1,052,347	(3.1)
	<i>Heads</i>	<i>Heads</i>	
Herd size of dairy cows	539,400	447,335	20.6
Including: Milkable cows	253,633	208,882	21.4
Calves and heifers	285,767	238,453	19.8
Proportion of milkable cows in the herd size of dairy cows <sup>Note 3</sup>	47.0%	46.7%	0.3 percentage point increase

The Board did not recommend the distribution of an interim dividend for the six months ended June 30, 2023.

### Notes:

1. It represents (loss)/profit for the period after adjusting the following items: (i) other gains and losses, (ii) impairment losses under expected credit loss model, net of reversal, (iii) losses arising from changes in fair value less costs to sell of biological assets, (iv) income tax expense, (v) finance costs, (vi) interest income, and (vii) depreciation and amortization charged to profit or loss.
2. It represents (loss)/profit for the period excluding losses arising from changes in fair value less costs to sell of biological assets.
3. Reproduction in self-operated dairy farms and import of quality heifers in new dairy farms led to a lower proportion of milkable cows in the herd size of dairy cows.

# Distribution Map of Production Areas



## 85 self-operated dairy farms

Covering 17 provinces, municipalities and autonomous regions with a herd size of nearly 540,000 dairy cows



## 15 feed mills

Covering 25 provinces, municipalities and autonomous regions, and serving around 1,500,000 ruminants in China



## 15 forage grass plantation bases

Having built forage grass plantation bases centered on Ar Horqin Banner, the China's "Grass Capital", for producing premium forage grass



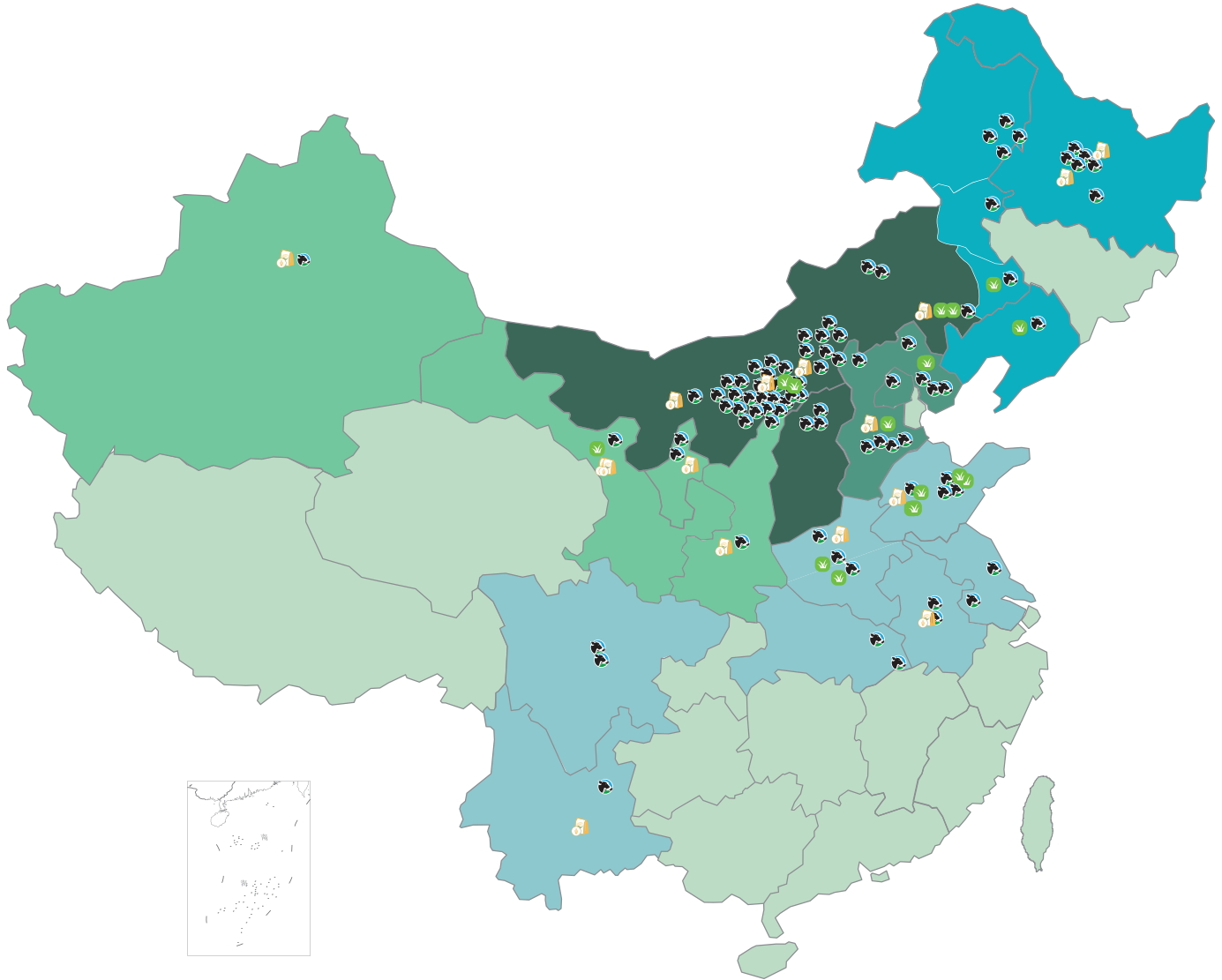
## 3 key breeding bases

The United States: Wisconsin  
China: Horinger and Qingshuihe



## 1 dairy industry chain platform

Industry chain financial center, warehousing and logistics center, cloud sharing center and global procurement center



Legend : self-operated dairy farms    feed mills    forage grass plantation bases

# Management Discussion and Analysis

## INDUSTRY REVIEW

During the Reporting Period, dairy consumption slackened slightly, and the dairy farming industry faced severe challenges, such as falling milk prices and rising feed cost, due to the impact of the economic situation. According to statistics presented by the Ministry of Agriculture and Rural Affairs of the People's Republic of China (the "Ministry of Agriculture and Rural Affairs"), during the Reporting Period, the average price of raw milk in major provinces of China's dairy industry was RMB3.96/kg, representing a decrease of approximately 5.7% from RMB4.20/kg in the 2022 Interim Period and the prices of soybean meal and corn in China remained high with the average prices up by 4.8% and 1.4% from that in the 2022 Interim Period, respectively. According to statistics from China Customs, the average cost, insurance and freight (CIF) of our country's import in alfalfa hay was US\$573.43/ton, representing an increase of 23.5% as compared with that of the 2022 Interim Period. In addition, the demands for ruminant concentrated feed and forage grass were also suppressed under the impact of tightened margins in the dairy farming industry. However, with the increase in large-scale dairy farms, there was still strong demand for high-quality breeding products in China during the Reporting Period. During the Reporting Period, China imported 6.7171 million straws of frozen bovine semen, representing year-on-year increase of 8.9%, according to the statistics provided by China Customs.

Despite the challenges faced by the dairy farming industry in the short term, with the deployment of national strategies, such as "expanding domestic demand" and "Healthy China", growing health awareness after the pandemic and continuous improvement in the quality of dairy products of domestic brands, the potential of China's dairy products consumption will be gradually released, and the prospects for the consumption market are broad. Meanwhile, with the impact of tightened national land policy, increased environmental requirements, rising feed cost and other factors, more industry barriers are set up. In addition, the Chinese government has issued a series of policies to support and guide the development of China's dairy farming industry, modern forage industry and independent breeding capabilities. The "14th Five-Year Plan for Promoting Agricultural and Rural Modernization" and the "Opinions of the Central Committee of the Chinese Communist Party and the State Council on Doing a Good Job in the Key Work of Comprehensively Promoting Rural Revitalization in 2023" published by China's State Council proposed numerous initiatives, such as enhancing the building of milk source base, optimizing the structure of dairy products; constructing high quality, water-saving production bases for forage grass and feed with high and stable yield, accelerating the development of alfalfa hay and other grass industries; making more efforts in development of silage and accelerating the promotion of straw breeding; implementing a five-year action plan for the development of cattle and sheep, vigorously developing herbivorous animal husbandry and deeply executing breeding revitalization actions, fully implementing major projects in bio-breeding, and solidly promoting national breeding joint research and livestock and poultry genetic improvement plans, etc. With the large-scale dairy farming industry's demand for technology, economy and efficiency optimization and the support and guidance of national policies, large-scale farming technology groups that operate in an intelligent and digital way, build a forage-livestock matching system and have capabilities in feed research and development ("R&D"), independent herd genetic improvement and sex-sorting technologies and embryo technology will usher in more development opportunities.





# Management Discussion and Analysis

## BUSINESS REVIEW

As the largest provider of comprehensive products and services along the upstream dairy industry chain in China, the Group was principally engaged in providing premium raw milk and specialty raw milk to large-scale dairy manufacturers and offering comprehensive ruminant farming solutions to dairy farms during the Reporting Period.

During the Reporting Period, the dairy farming industry in China faced the severe situation of milk price decline and high cost operation. The Group actively responded to challenges in the industry, seized opportunities, embraced certainties in high-quality development and achieved breakthroughs through technological empowerment. By leveraging its advantages in the scale as a leading enterprise and the business model covering the entire upstream dairy value chain, the Group continued to optimize products and product structure in an innovative way, make strategic plans to expand business scale and coverage, promote the implementation of the TPM system and the practice of digital management to further enhance operational efficiency, vigorously explore the development of the online platform *Jumuc.com* and offline pick-up store channels, strengthen risk control, actively screen high-quality customers and strengthen the “product + service” strategy. As a result, the Group’s revenue increased by 4.2% from RMB8,707 million for the 2022 Interim Period to RMB9,077 million for the Reporting Period.

The following table sets forth the detailed information of the Group’s two business segments, i.e. raw milk and comprehensive ruminant farming solutions:

Business Segments	Business Lines	Business Introduction	Operations	Revenue
Raw milk	Raw milk business	The Group provides premium raw milk and specialty raw milk to large-scale dairy manufacturers. Specialty raw milk mainly includes Jersey milk, DHA milk, A2 milk, organic milk, organic A2 milk, selenium-rich milk and organic Jersey milk etc.	As of June 30, 2023, the Group operated 85 modern dairy farms across 17 provinces in China, with a herd size of nearly 540,000 heads of dairy cows. During the Reporting Period, the Group’s raw milk production was approximately 1,440,000 tons and the annualized average milk yield per milkable cow (excluding Jerseys) was 12.2 tons, representing an increase of 7.0% from the 2022 Interim Period. Among them, the annualized average milk yield per milkable cow of premium raw milk dairy farms (excluding SKX) was 12.8 tons. During the Reporting Period, the first flock of imported and pure Saanen dairy goats arrived at the farms as planned by the Group so that its supply matrix with specialty raw milk will be further enriched after the production and operation.	During the Reporting Period, revenue from the Group’s raw milk business was approximately RMB6.16 billion, representing an increase of 18.0% from the 2022 Interim Period and accounted for approximately 67.8% of the Group’s total revenue during the Reporting Period.



# Management Discussion and Analysis

Business Segments	Business Lines	Business Introduction	Operations	Revenue
Comprehensive Ruminant farming solutions	Feed business	The Group provides nutrition concentrated feed and forage grass for dairy farms that meet the demands of ruminants for their growth and production, and offers ancillary ruminant farming support services, such as ruminant nutrition, breeding techniques, and ruminant healthcare for free.	As of June 30, 2023, the Group operated 15 feed mills and 15 forage grass plantation bases in China. During the Reporting Period, the Group's production of concentrated feed was approximately 580,000 tons; the quality of the alfalfa grown in our forage grass plantation bases was grade A or higher, with supreme and superior alfalfa hay (RFV higher than 170) accounting for over 60%, and alfalfa silage with 22% protein content accounting for over 35%, achieving the highest quality level of American alfalfa hay.	During the Reporting Period, revenue from the Group's feed business was approximately RMB2.64 billion and accounted for approximately 29.1% of the Group's total revenue during the Reporting Period.
	Ruminant farming products marketplace business	The Group provides ruminant farming products purchased from selected suppliers, such as veterinary drugs, animal husbandry equipment and other items for dairy farms, through its online retailer platform, <i>Jumuc.com</i> , and offline ruminant farming products marketplace and offers ancillary ruminant farming support services to diversify its product offerings and further address its customers' business needs.	During the Reporting Period, the Group provided over 1,000 ruminant farming products through its online platform, <i>Jumuc.com</i> , and 28 offline pick-up stores to 25 provinces, municipalities and autonomous regions of China, covering core operations of dairy farms. During the Reporting Period, <i>Jumuc.com</i> carried on business through brand licensing and customer authorization to its ruminant farming products marketplace, which specifically took over the offline business of <i>Jumuc.com</i> and realized the offline extension of the brand.	During the Reporting Period, revenue from the Group's ruminant farming products marketplace business was approximately RMB0.19 billion and accounted for approximately 2.0% of the Group's total revenue during the Reporting Period.
	Breeding business	The Group provides dairy farms with, among others, common frozen semen, sex-sorted frozen semen and sex-sorted embryos of high-quality dairy cows and beef cows in China and overseas through its subsidiary, SKX.	As of June 30, 2023, the Group operated 3 key breeding bases. During the Reporting Period, the sales volume of the Group's breeding products was approximately 674,000 straws/units, among which the volume of embryos increased 20.7% as compared with that of the 2022 Interim Period and sex-sorted breeding embryos were over 5,700, making us one of the dairy companies in China that pioneered the scaled production and commercial application of high-yield dairy cow embryos.	During the Reporting Period, revenue from the Group's breeding business was approximately RMB95 million, representing an increase of 56.8% from the 2022 Interim Period.

During the Reporting Period, the construction for the key breeding bases for beef cattle with the highest standard in the country commenced.



# Management Discussion and Analysis

## I. PERFORMANCE OF EACH BUSINESS SEGMENT AND OPERATION REVIEW

### (I) Raw Milk Business

The Group has established long-term and stable relationships with large dairy manufacturers in the PRC. Benefiting from the full recovery of economic and social operations, large dairy manufacturers experienced solid growth and the integrated development of the entire dairy industry chain continued to benefit the sustainable development of the Group's business. During the Reporting Period, the major customers of the Group's raw milk business included Yili Group, Bright Dairy, and Junlebao Dairy, etc.

The following table sets forth certain key operating data with respect to the Group's raw milk business for the periods and as of the dates indicated:

	For the six months ended/ As of June 30,		Period- on-period change (%)
	2023	2022	
Number of self-operated dairy farms	85	75	13.3
Number of dairy cows (in heads)	539,400	447,335	20.6
Raw milk production volume (in tons)	1,437,138	1,150,873	24.9
Raw milk sales volume (in tons)	1,402,485	1,127,736	24.4
Average price of raw milk (RMB/Kg)	4.39	4.63	(5.2)
Annualized average milk yield per milkable cow (excluding Jerseys <sup>Note 1</sup> <sup>Note 2</sup> (in tons)	12.2	11.4	7.0
Including: Inner Mongolia Youran (excluding Fonterra China Farms Group acquired) (in tons)	12.5	11.9	5.0
Including: Fonterra China Farms Group acquired (in tons)	12.9	11.2	15.2
Including: SKX (in tons)	11.5	10.9	5.5

#### Notes:

- Jerseys are a breed of small dark brown dairy cattle originating from the Jersey Islands, the English Channel, with a high milk fat and milk protein content and lower milk yield per dairy cow as compared to Holsteins.
- For the six months ended June 30, 2023, the annualized average milk yield per milkable cow was calculated based on the raw milk production volume during the Reporting Period divided by the accumulated feeding days of the milkable cows during the Reporting Period and multiplied by 365 days.

### Farm overview and herd structure

As of June 30, 2023, the Group operated 85 modern dairy farms across 17 provinces in China. The number of dairy cows of the Group increased by 20.6% from 447,335 as of June 30, 2022 to 539,400 as of June 30, 2023, including 253,633 milkable cows and 285,767 calves and heifers, accounting for 47.0% and 53.0% of the total number of the Group's dairy cows, respectively. Reproduction in self-operated dairy farms and the import of quality heifers in new dairy farms led to a lower proportion of the Group's milkable cows. The Group's younger herd structure will provide strong support to the continuous improvement of production volume of raw milk and the sustainable herd expansion in the future.

During the Reporting Period, the Group had a total of 7 new dairy farms put into operation, among which one is an organic dairy farm and another one is located in Xinjiang Uygur autonomous region ("Xinjiang") on the golden milk source belt, which is the Group's first self-operated dairy farm in Xinjiang. The remaining dairy farms in operation are all scaled dairy farms with over 10,000 dairy cows.

## Management Discussion and Analysis

As of June 30, 2023, the Group was constructing several new dairy farms in Inner Mongolia, Heilongjiang, Gansu, Shanxi and other provinces on the golden milk source belt, and the provinces of South-central China, such as Shandong, Henan and Anhui, where there is a large population, strong economy, great consumption potential, scarce land resources and a long-term lack of raw milk, which will be successively put into operation in the second half of 2023 and onwards. The Group also has a dairy goat milk business layout, with a planned herd size of 50,000 heads for its new dairy goat milk farm. The dairy goat milk farm is currently the biggest dairy goat milk farm in China and is about to be a world-class stud ram farm, which will further enrich the specialty raw milk offerings of the Group. At present, the first flock of pure Saanen dairy goats imported from New Zealand and Australia has arrived at the farm. As of June 30, 2023, the Group's herd size of young ewes was 6,743 heads and the number of young rams was 66 heads.

### Dairy farms operation management and raw milk production volume

The Group's raw milk business, empowered by its technological strategic transformation, the effective promotion of lean management and the efficient synergy of its various businesses, has insisted on high yield and longevity, precise feeding and utilizing the advantages of breeding technology, resulting in a significant improvement in the operational efficiency of dairy farms. During the Reporting Period, the Group's raw milk production amounted to 1,437,138 tons, representing an increase of 24.9% from 1,150,873 tons for the 2022 Interim Period. During the Reporting Period, the Group's annualized average milk yield per milkable cow (excluding Jerseys) was 12.2 tons, representing an increase of 7.0% from 11.4 tons for the 2022 Interim Period. The Group's dairy farms (excluding SKX), which produces premium raw milk, recorded an annualized average milk yield per milkable cow of 12.8 tons, while the annualized average milk yield per milkable cow of the acquired Fonterra China Farms Group reached 12.9 tons, representing an increase of 15.2% from the 2022 Interim Period. Wuwei Ranch, a dairy farm under the Group with 10,000 heads of cattle, which has been in operation for more than 2 years, reported that its unit daily yield of the whole herd of milkable cows exceeded 49 kg, reaching a world-leading level and setting a new industry benchmark.

The Group's dairy farms operations management initiatives are described below:

- i. Effective implementation of lean production management. The Group continues to apply the TPM system, practice lean production management extensively, strictly implement SOP feeding management process standards and enhance standardized operation of employees. The Group also steadily enhanced cow welfare and improve cow health and quality to realize cost reduction and efficiency enhancement. During the Reporting Period, the Group, through examining pilot cases and lean diagnosis, identified six common management issues and solutions including cow comfort management, drinking water management, precise feeding formula implementation and feeding time stability, and presented them to all dairy farms for implementation.
- ii. Effective synergies across businesses. The Group fully utilizes its own ruminant feed research results and advanced breeding techniques. Capitalizing on its own R&D team, dairy cattle nutrition database and production bases, etc., the Group achieved precise nutrition and efficient milk production by dairy cows and stable supply of high-quality concentrated feed and forage grass, and increased the proportion of high-yield cow herd, thereby safeguarding the health of cows and ensuring high yield. During the Reporting Period, the Group improved the unit production of dairy cows and milk quality indicators, reduced incidents of cow diseases and mitigated various kinds of stress reactions through several rounds of evaluation and rectification of the implementation of precise nutritional formulas and the formulation of different formulas for different herds, the development of new products, in particular the continuous improvement in the customization of premixes and functional products.

## Management Discussion and Analysis

- iii. Empowering business with technology. The Group continues to practice technology empowered businesses and apply its self-developed intelligent farm management system, Intelligent Farm Cloud, to achieve accurate monitoring and health care for dairy cows. The Group continues to foster innovation in the development and application of Internet of Things (IoT) smart facilities in animal husbandry industry, comprehensively and continuously improve dairy cattle welfare by applying the IoT and through equipment upgrade and the application of intelligent systems, etc. During the Reporting Period, the Group continued to improve dairy cattle welfare and achieve cost reduction and efficiency gains by benchmarking against advanced dairy farms in the U.S. in implementing new milking operation techniques and piloting the calves ration feeding system. The Group continuously established core herds with embryo technology, sex-sorting technologies, cow cloning technology, genetic testing and other advanced breeding technologies and continued the plan to promote the longevity and high milk yield of primipara cows', increase the proportion of high-yield cow herd and extend primipara cows' lifespans.
- iv. Strategically deploying new dairy farms and dairy goat farms. The Group's existing dairy farms and new dairy farms strategically planned in advance are gradually releasing their production capacity. During the Reporting Period, a total of 7 new dairy farms were put into operation. The Group also invested in the field of goat milk, and the first batch of purebred Saanen dairy goats from New Zealand and Australia arrived at the farms, which will further enrich the specialty raw milk offerings of the Group.
- v. Practicing low-carbon and environmental protection strategy. The Group proactively implements low-carbon and environmental protection strategy in dairy farms operation, actively introduces clean energy, and accelerates the electrification transformation and new energy construction of dairy farms. During the Reporting Period, the Group constructed 1 new photovoltaic dairy farm and signed 4 new photovoltaic farms, which makes it a total of 7 photovoltaic farm projects which have been promoted; 3 dairy farms replaced their biomass boilers with air source heat pumps and cumulatively a total of 53 dairy farms have completed such replacement; 11 dairy farms conducted waste heat recovery transformation and cumulatively a total of 44 dairy farms have completed such transformation. The Group introduced new energy vehicles such as electric loaders and electric pushers, and promoted their application.

### Raw milk research and development and study on dairy farming technology

The Group, based on its own dairy nutrition database, has established a R&D platform focusing on dairy nutrition and health. By introducing quality breeds through genetic screening of dairy cows, the Group conducted continuous research on the long-term nutritional metabolism, farming techniques and professional nutritional formula of dairy cows, and carried out feeding trials on its own farms to continuously improve the basic nutritional composition of raw milk such as milk protein and milk fat, and develop special raw milk to meet consumers' requirements for quality, taste and efficiency. During the Reporting Period, the Group continued to expand its production capacity of A2 milk, Jersey milk and organic milk. The production in commission of the dairy goat farm, which deployed by the Group, will have the specialty raw milk offerings matrix further enriched.

## Management Discussion and Analysis

The Group actively facilitated the technical research on carbon emission reduction in dairy farming, and jointly advanced the study on the project of the Research and Application of Comprehensive Technology of Carbon Neutralization and Carbon Emission Reduction in Large-scale Dairy Breeding 《規模化牧場養殖過程碳中和·碳減排綜合技術研究與應用》, the Key Technology Research on the Integration of Dairy Cow Breeding and Farmland Planting 《奶牛－農田系統種養一體化關鍵技術研究》 and Non-carbon Dioxide Greenhouse Gas Emission Reduction Strategy for Agricultural Production and Technology Cooperation R&D and Application 《農業生產非二氧化碳溫室氣體減排戰略及技術合作研發與應用》 together with Chinese Academy of Agricultural Sciences and other scientific research institutions and universities. During the Reporting Period, the Research and Application of Comprehensive Technologies on Carbon Neutrality and Carbon Emission Reduction in the Breeding Process in Scaled Dairy Farms project was concluded. As a result, a total of 4 patents on manure-based planting-breeding combination system were formed, comprising 1 national level organization standard and 2 local standards on manure recycling, guiding the industry to adopt standardized procedures in disposal decontamination and recycling of manure. Combined with the key emission links identified by carbon emission accounting and emission reduction technology, the Group continued to promote precise emission reduction in the process of dairy farming to contribute its intelligence to the green and sustainable development of the global dairy industry.

### (II) Comprehensive ruminant farming solutions

The Group deeply believes that outstanding grass, high-quality feed and quality breeding products are fundamental guarantees to the health and high milk yield of cows. Benefiting from the continuous expansion of China's herd farming scale, the improvement of large-scale dairy farming and farming techniques, the Group's advantages in R&D capability, technical service capability, quality grass selection and cultivation technologies and advanced independent cow genetic improvement and sex-sorting technologies are increasingly highlighted.

#### The "product + service" operation model

The Group provides high-quality feed covering the whole life cycle of ruminants, focuses on developing high-tech products such as premixes and functional feed, cultivates dairy supermarket products of its own brand, creates breeding products with core competitiveness, continuously improves the quality and conversion rate of grass products, and fully converges with international standards in terms of technology R&D, product innovation capabilities and technical service standards, so as to continuously improve the Group's product and service strength and brand power.

Leveraging its strategies of the dual-talent systems of dairy farming and farming solutions, core technology accumulation of its in-house technical team, and its own long-term and large-scale farming advantages in different regions with different scales, the Group established a senior expert service team and pooled approximately 200 highly sophisticated talents on technical services and with experience in dairy farm management to provide customers with various services such as diagnosis, on-site services, breed selection and matching, accurate nutrition, effective breeding and technology escrow, and make available of diversified services such as online product trade, technical consultation, remote diagnosis and information support, through the platform of *Jumuc.com*.

# Management Discussion and Analysis

## Concentrated feed business

The Group currently owns eight brands and offers a variety of concentrated feed under them, which are customised for different ruminants, including dairy cows, beef cattle, sheep and dairy goats. During the Reporting Period, with declining profits in the dairy cattle breeding industry, the Group's feed business timely revised its strategies, strengthened risk control, proactively selected high-quality customers, and applied digital platforms and intelligent systems to comprehensively assess operating problems faced by customers, and managed to enhance the profitability of its customers as a whole. The sales volume of concentrated feed of the Group was 449,310 tons, representing a decrease of 14.4% as compared with 525,009 tons in the 2022 Interim Period during the Reporting Period.

### *Overview and distribution of concentrated feed mills*

The Group processes and produces concentrated feed through self-construction dairy farms and cooperation with third parties. As of June 30, 2023, the Group operated 15 feed mills in China. During the Reporting Period, the production capacity of the Group's premix production plant in Ulaanchabu, which was put into operation in 2021, increased from 72,000 tons to 102,000 tons through the addition of new production lines and the packaging of premix products was upgraded at the same time. The production plant adopts the standard for production of premixes for infant milk powder, with a product accuracy of up to 0.1%, providing a solution for the industry's precise nutritional needs in the era of high yield productivity.

During the Reporting Period, the Group's concentrate feed production amounted to 579,660 tons, representing a decrease of 9.8% from 642,428 tons for the 2022 Interim Period. The Group actively adjusts the production capacity of the feed mills according to market demand. As of June 30, 2023, the Group commenced the construction of a feed mill in Hebei. The production capacity of the Group's feed mills will reach 1,820,000 tons after the feed mill is put into operation. All of the Group's new feed mills were equipped with advanced equipment and facilities, as well as cutting-edge technologies, which laid a solid foundation for the Group's further improvement in scale and operational capacity in the future.

### *Concentrated feed brand building and channel expansion*

In respect of feed brand upgrading, the Group entered into a strategic cooperation agreement with Dr. Mike Hutjens, a famous dairy cattle nutrient expert of the United States, an internationally prestigious dairy cattle feeding and management technical specialist and an editorial board member of the Nutrient Requirements of Dairy Cattle, to bring the technological R&D, product innovation capability and technical service level of the Group comprehensively in line with international standards and promote the Group to become a global leader in the feed business.

During the Reporting Period, the Group strategically assisted the research team of Dr. Bu Dengpan of the Institute of Animal Science of the Chinese Academy of Agricultural Sciences (CAAC) in the translation and promotion of the Nutrient Requirements of Dairy Cattle, contributing to the precise and balanced nutrition of dairy cows in China. During the Reporting Period, the Group launched integrated marketing activities, such as outdoor advertisements, online marketing and online live broadcasting for the purpose of constantly increasing exposure of the brand, and for the first time the Group participated in the selection of winners for China's Best Feed Awards, which effectively contributed to the construction and upgrading of the feed brand's technologically advanced and professional image, and enhanced the brand's influence in the industry. In addition, the Group continued to improve and implement its brand upgrading program, which helped the Group's feed business to expand brand influence on the market so as to gradually increase market share.

# Management Discussion and Analysis

## *Concentrated feed product development and technology research*

The Group continues to innovate and upgrade a wide range of concentrated feed under its eight feed brands. Through the application of core technologies, such as amino acid balance technique, gastrointestinal health regulation technology and precise nutrition assessment technology, the strategic partnership with Dr. Mike Hutjens, an internationally renowned dairy farming expert, and combined with the most advanced dairy nutrition technology in the United States, the Group continues to create world-class high-yield, long-life feed products.

In the field of dairy feed, the Group optimizes the formula of main products to improve their performance through the optimization of energy, protein, level of trace minerals and amino acid and others, and provides precise nutrition, health care and supporting technical services covering the whole life cycle of dairy cows to enhance the high productivity and longevity of dairy cows while reducing costs and increasing efficiency for customers. During the Reporting Period, the Group upgraded its dairy lactation product Yuanxing 50 and calves feed, and newly launched the Kangshunbao 13 dairy cow peripartum feed. Through product upgrades and new product launches, the Group was able to improve the immunity and health of dairy cows and the ability of calves to resist diseases, while further enhancing the effectiveness of its products and lowering its costs.

In the area of beef cattle and sheep, dairy goat and camel feed, the Group introduced premix products aimed at improving the weight gaining performance of beef cattle and sheep, functional feed products that improve the acidity of dairy goat milk, and “camel breed” feed products. During the Reporting Period, the Group launched a product for breeding milkable cows to address the problem of anorexia for the first time. A new anti-heat stress product for dairy goats was launched to enhance the feed intake of dairy goats during heat stress, thereby realizing a smooth transition from heat stress. The formula of beef cattle and sheep fattening products was upgraded to reduce costs and enhance fattening effect at the same time, thereby further enhancing the price-performance ratio of products and boosting sales volume.

## **Forage grass business**

The Group laid out premium forage grass plantation bases centred on Ar Horqin Banner, the China’s “Grass Capital”. Based on the synergies between the livestock breeding and forage grass business segments, the Group made breakthroughs in the long-term sustainable development of the business through the model of land area under the integrated plantation. The Group established ancillary forage grass plantation bases in proximity to our dairy farms and has built a total of 15 forage grass plantation bases mainly used for the production of high-quality forage grass products.

By undertaking scientific and technological research projects and together with the Group’s practice of producing high-quality forage grass, the Group has further promoted the in-depth integration of production and technology, constantly made breakthroughs in field management and protection standard, and has made outstanding achievements in variety selection, standardized plantation, precise irrigation, alfalfa regreening, afforestation and sand fixation, to become a leading high-quality forage grass plantation enterprise in China.

During the Reporting Period, the quality of the Group’s self-produced alfalfa hay all reached Grade 1 and above, of which the percentage of supreme and superior alfalfa hay with RFV170 or above was over 60%, and the percentage of alfalfa silage protein index of 22% reached over 35%, reaching the top level of alfalfa hay in the United States; through careful study of local climate changes and soil characteristics, the Group independently created a set of hibernating system program for alfalfa hay, the overall re-greening rate of the Group’s alfalfa hay reached over 85%, ranking top in the industry. The Group takes the lead in developing the wrapped silage technology, through which, alfalfa silage can effectively retain alfalfa



## Management Discussion and Analysis

protein, improve the palatability of dairy cows, and keep the quality of alfalfa to the greatest extent. By virtue of its advantages of integration of plantation and dairy farming, the Group has actively facilitated the improvement of salinized and sandy land, and studied soil carbon sequestration technology to promote the “increase of foreign exchange” of plantation bases. During the Reporting Period, the plantation base implemented no-tillage carbon sequestration seeding technology in about 48,000 mu land. During the Reporting Period, the Group pioneered the SOP standardized management system for alfalfa hay cultivation in the industry, realizing the whole process of standardized management and promoting its application in the industry.

### Ruminant farming products marketplace business

As of June 30, 2023, the Group provided over 1,000 ruminant farming products for customers through the Group’s online platform, *Jumuc.com*, and the sales network of 28 offline pick-up stores nationwide, involving various core business operations of dairy farms. During the Reporting Period, in order to upgrade *Jumuc.com* and enhance its commercial value, the Group has strategically transformed its platform business by brand licensing of original ruminant farming products and providing authorization to customers, and specifically took over the offline business of *Jumuc.com* to realize the offline extension of the brand, which further broadened the scope of *Jumuc.com*’s business and influence. Through the fusion of online and offline development, the Group has realized inter-connection of information, convenient shopping and resource sharing in the upstream and downstream of the industry chain, made full use of the Internet plus large logistics system, provided fast and efficient one-stop services for customers all over the country, and promotes the mutual development of the upstream and downstream partners of the industry chain to achieve win-win situation.

In addition, *Jumuc.com* platform integrates global supply resources, and cooperates with more than ten famous domestic and foreign suppliers to carry out projects such as product R&D, private brand establishment and authorized agent system, etc. In addition, by cooperating with the world’s well-known suppliers, the Group introduced milking robots, material pushing robots, calves feeding equipment and other new equipment and products, providing product and service support to achieve the intelligence and automation of dairy farms.

### Breeding Business

The Group offers high-quality domestic and overseas regular frozen bovine semen, sex-sorted frozen bovine semen and embryos to dairy farms through SKX, a subsidiary of the Group. During the Reporting Period, sales revenue from the breeding business of the Group increased by 56.8% as compared to 2022 Interim Period.

During the Reporting Period, the Group actively adjusted the structure of breeding products, therefore, the sales volume of the breeding products decreased by 9.5% from 744,210 straws/units in the 2022 Interim Period to 673,597 straws/units during the Reporting Period, among which the sales volume of the embryos increased by 20.7% as compared to the 2022 Interim Period. During the Reporting Period, the Group produced over 5,700 sex-sorted breeding embryos and became one of the breeding companies in China that pioneered the large-scale production and commercial application of high-yield dairy cow sexsorted embryos.

# Management Discussion and Analysis

## *Overview and distribution of breeding bases*

The Group is operating a total of three breeding farms in Inner Mongolia, China and Wisconsin, the United States, one of which is a core breeding farm operated in Inner Mongolia that meets international standards with a designed capacity of 3,500 cattle and equipped with a world-class embryo production laboratory, which is committed to developing into an international first-class platform for the germplasm innovation. Leveraging the integrated application of ovum pick-up-in vitro fertilization (OPU-IVF) technology and sex-sorted technology, it rapidly expanded the breeding of high-yield dairy cows and breeding cows and bred high-yield dairy cows and reserve breeding bulls on a large-batch basis. The breeding farm has been put into operation. In the future, the Group will have the annual production capacity of 50,000 high-yield sex-sorted embryos of over 14 tons, 2,000 breeding embryos and 500 breeding bulls, which will make it become the largest quality cow breed supply base in China, so as to solve the current shortage of high-yield dairy cows in China. The full operation of the breeding farm will enhance the profitability of the Group and lay a foundation for maintaining high growth of the Group's breeding business.

During the Reporting Period, the Group commenced the construction of the beef cattle core breeding base with the highest standards in China, which, upon completion, will be able to breed 200 high-quality breeding bulls and produce one million straws of frozen bovine semen annually. The Group is committed to building a large-scale and high-quality production platform for beef cattle breeding embryos and breeding sex-sorted frozen bovine semen.

## *Strengthening breed sources and expanding channels*

The Group has continuously enhanced its core competitiveness and market share in the breeding business, as follows:

Securing the world's top breeds. The Group accelerated its independent cultivation of world-class top-class breeding bulls and increased its investment in the joint-venture breeding farm in the United States, and carried out strategic cooperation with the world's leading breeding companies to secure the world's top breeds. During the Reporting Period, the Group successfully bred a dairy breeding bull ranking No. 1 in the national genome registered with the American National Association of Animal Breeders among all Chinese players in the same period.

Providing customers with precise improvement programs and building core herds. The Group establishes strategic breeding partnerships with customers, promotes the commercial application of whole genome testing in dairy farms, combines embryo production and transfer technology, and focuses on identifying and developing a number of dairy cow sex-sorted embryos demonstration customers in its nationwide operations. We will also upgrade our systematic and continuous breeding services to provide customers with accurate improvement programs and build up a core herd to enhance the competitiveness of our breeding products. During the Reporting Period, the Group's sales volume of embryos increased by 20.7% as compared to that of the 2022 Interim Period, and the performance of the Group's breeding business in Guangxi, Jiangxi and Tianjin during the Reporting Period has doubled as compared to the 2022 Interim Period.

In addition, leveraging the channel advantages of *Jumuc.com*, the Group contributed to the penetration rate of customers and the market share of the platform.

## Management Discussion and Analysis

### *Breeding product development and technological innovation*

The Group strengthened the top-class cultivation of dairy breeding bulls, domestically-produced regular and sex-sorted frozen semen, production technology and quality of sex-sorted embryos and bovine embryo through genetic testing technology, sex-sorted technology, cow cloning technology and embryo technology and others to empower the national strategy of germplasm resources security and independent breeding technology.

Through the efforts of its independent R&D technology team, the Group developed the “κ-casein genotype identification method for dairy cows” and a new technology for genetic identification of A2 dairy cows during the Reporting Period, thus reserving key technologies for the development of the Group’s specialty fresh milk. The Group jointly established a key technology and gene editing platform for the development of new livestock stem cells, successfully edited TK and H lactoferrin stem cell lines and cloned dairy goats with TK gene editing.

With the Group’s continuous investment and the development and application of core technologies, SKX has bred the 35th-ranked dairy breeding bull in the GTPI of the United States during the same period according to the data of the ranking of reserve dairy breeding bulls released by the American Holsteins Association in April 2023, and has become the 1st-ranked dairy breeding bull in China to be registered as a national dairy breeding bull with the American National Association of Animal Breeders. Also, 32 breeding bulls of the Group are ranked among the top 100 in the country.

During the Reporting Period, SKX’s “Key Laboratory of Cattle Germplasm Creation and Breeding Engineering” was selected into the list of key laboratories of enterprises published by the Ministry of Agriculture and Rural Areas. The laboratory is an important base for the country to carry out scientific and technological innovation activities for the breeding industry, cultivate scientific and technological innovation achievements, and gather high-level livestock breeding technology talents. The selection will provide an important platform for the Group to exchange and cooperate with the industry in agricultural science and technology. The Group will continue to focus on key scientific tasks including the “Integration of Development of New Technologies on Dairy Cow Breeding and Innovation of Key Technologies on Breeding and Reproduction” and “Key Technological Innovation for the Exploration of High-end Dairy Breed Source and Efficient Reproduction”, so as to build up key technologies in the breeding industry, contributing to the “revitalisation of dairy industry” and “revitalisation of breeding industry” of the state.

The Group actively carries out research on the establishment of low-emission dairy cow model and breeding. During the Reporting Period, SKX and Huazhong Agricultural University took the lead in using mid in-fra red spectrum (MIR) data of milk to establish a prediction model for methane release from dairy cows in China, so as to realize the refinement and maximum utilization of milk ingredients. In addition, the Group is currently conducting research on the rapid detection technology of methane emission from dairy cows, screening and establishing a breeding core group of dairy cows with carbon emission lower than 10% of the average level and features of high yielding, high reproduction, disease resistance and longevity, so as to reduce methane emission from dairy cow herds and provide scientific basis and technical support for high-yield and low-carbon dairy farming mode.

# Management Discussion and Analysis

## II. RESEARCH AND DEVELOPMENT STRATEGIES MANAGEMENT

Leveraging nearly four decades of experience in operation and research, and breeding sources of approximately 540,000 dairy cows, the Group is devoted to R&D efforts in the upstream dairy industry, mainly including research on farming technologies of dairy cows, development of specialty raw milk, research on the nutrition value of feed, research on genetic improvement technology and sex-sorting technology for cattle, as well as exploration and practice of integrated farming model and eco-farming standards.

The Group focuses on the improvement of the quality and competitiveness of its products with innovative technologies. On the one hand, the Group attaches importance to the reserve of core technology R&D personnel. As of June 30, 2023, the Group's R&D team consisted of approximately 400 personnel, all of whom have extensive experience in their respective industries. Supported by our in-house R&D team, as of June 30, 2023, the Group obtained 76 core patented technologies, covering each of our business lines. On the other hand, the Group has continuously enriched its specialty raw milk offerings and comprehensive ruminant farming solutions. The Group has launched seven kinds of specialty raw milk, made deployment for the goat milk to further enrich the specialty raw milk offerings which, benefited from the scarcity of specialty raw milk, was less affected by the declining price of raw milk. The Group developed to launch proprietary concentrated feed products, such as structural calf feed, rumen bypass soybean meal, premixes and heat stress resistant perinatal feed and others. Moreover, the Group has built a leading ruminant nutrient database in China and developed leading genetic improvement technology and sex-sorting technology. The Group explored and created new farming models and methods, developed and promoted new technologies for the deep processing and utilization of forage grass products. In addition, the Group established extensive cooperation with renowned colleges and research institutions, actively participated in and undertook major demonstration projects adopting the "open competition mechanism" under the guidance of the National Dairy Technology Innovation Centre and the action of "revitalizing Inner Mongolia through science and technology" in the Inner Mongolia Autonomous Region to conduct research on the transformation and application of technological and R&D achievements, with focus on key technological issues in the upstream dairy industry, such as cow breeding and farming, exploration of high-quality dairy breed source and alfalfa selection and cultivation technology. During the Reporting Period, the Group entered into strategic cooperation agreements with the Institute of Animal Science and Feed Research Institute and Grassland Research Institute of the CAAS, respectively. Cooperation will be carried out in dairy farming technology research, feed nutrition research and forage selection and breeding research, and in-depth cooperation will be carried out in dairy nutrition and health, high productivity and longevity, low carbon emission reduction, dairy farms cost reduction and efficiency enhancement, and grassland quality improvement and increment. New development routes are to be explored with the scientific and technological achievements of R&D, thus injecting new development momentum into the Group.

# Management Discussion and Analysis

## III. QUALITY ASSURANCE

Sticking to the mission of “Creating the Source Power for the Healthy Life of Human Beings with Quality” and carrying forward the management concept that quality is life, the Group focuses on consolidating the foundation for quality management through three cores, namely quality culture, full-chain quality management and high-quality products. The Group continuously promotes the implementation of the quality management system among all the staff, during the full process and in all aspects and adheres to “high quality, high standards and high requirements” for the production process to guarantee product quality.

During the Reporting Period, the Group continued to conduct and passed various food safety and quality related management system certifications: the SQF (Safe Quality Food system), ISO9001 (the quality management system), ISO22000 (the food safety management system) and ChinaGAP (China Good Agricultural Practice) and ISO17025 (CNAS Laboratory Management System) etc. Additionally, the Group is the first comprehensive enterprise of dairy farming and feed processing in China that has passed SQF certification, the world-leading food safety and quality management system.

The Group’s near-infrared nutrition database recorded over one million marked samples. The establishment of this database is of weighty significance in promoting accurate nutrition and improving test efficiency. The Group pioneered raw material adulteration identification technology in the animal husbandry industry to ensure the high-quality feed ingredients and products for self-operated dairy farms and feed customers.

During the Reporting Period, empowered by digital technologies and the quality management information platforms, such as near-infrared database, CNAS-certified laboratories, quality information management system and EHSQ (Environment, Health, Safety and Quality) management system, the collection, transmission and analysis of the quality information along the whole chain became more intelligent and efficient. The food safety team of the Group adopted quality examine mechanism, quality warning mechanism and supplier evaluation mechanism to promote the continuous improvement of the quality assurance and risk prevention and control system. The Group continued to strengthen the whole chain quality improvement and made great achievements in quality management and quality improvement by quickly identifying known and unknown risks, improving quality management information system, normalising quality assurance control points (QACP).

During the Reporting Period, all of the Group’s products passed the sampling inspection of quality conducted by national supervision and inspection authorities at all levels. The Group assesses the quality of its raw milk primarily with reference to indicators generally recognized in the industry, namely aerobic plate count and somatic cell count. During the Reporting Period, the average aerobic plate count and somatic cell count in the Group’s raw milk were much superior to the standards set forth in China’s Premium Milk Initiative (中國國家優質乳工程) and the standards of the United States, Japan and the European Union.

## IV. PROCUREMENT STRATEGIES MANAGEMENT

The Group applied a “full lifecycle” supplier management system and developed procurement strategies highly matching its strategic development, which focused on deeply implementing the procurement strategy on bulk raw and ancillary materials, further expanding strategic suppliers and optimising supplier structure. It mitigated the procurement risk on bulk raw materials and further reduced procurement cost through the hedging of futures, strategic reserve, direct purchase from sources, global purchases and other strategies. During the Reporting Period, the Group entered into 79 strategic collaboration projects with 32 strategic suppliers. The Group continued to explore value-added businesses that can be carried out with strategic partners and strengthened the relationship with business partners to build a sustainable win-win ecosystem.

# Management Discussion and Analysis

## V. DIGITAL MANAGEMENT

Adhering to the principle of “data-driven business innovation, technology-driven value-added business”, the Group leveraged the value of platform data such as near-infrared database and CNAS-certified laboratories to optimize and upgrade the existing Intelligent Farm Cloud, financial sharing platform and human resources sharing platform, EHSQ management system, the *Jumuc.com* platform and other digital assets. Also, through integration and governance mechanism, the Group built and enhanced four aspects of management capabilities: information management of the whole lifecycle of dairy cows and the whole process of production and operation; integrated management and control platform of business, finance and human resources; integrated management and traceability of environment, health, safety and quality; and precise marketing, service and in-depth pipeline management.

During the Reporting Period, the Group established a digital technology center to undertake and promote the technological upgrade and transformation of the business, continuously enhanced the digitalization capability of all staff, helped to enhance the digitalization competitiveness and business operation capability of the Group, realized the upgrade of business management and operation mode and, accumulated business experience and flexibly respond to market changes.

During the Reporting Period, the Group took the lead in the industry to build a “fully intelligent unmanned barn”, which adopted fully intelligent unmanned milking robot, feeding robot, material pushing robot, dung cleaning robot, all-weather cow feeding TMR batching system and intelligent robot biological fermentation system, which are the most internationally advanced. At the same time, through the IoT technology, the temperature, humidity, gas and light of the barn are automatically adjusted, which greatly improves the management accuracy and fineness of dairy farms, improves operational efficiency, and provides intelligent protection for the health of dairy cows.

## VI. BUILDING A SUSTAINABLE DEVELOPMENT MODEL

The Group adheres to the green, ecological and sustainable development strategy, continuously deepens the sustainable development management system, constantly integrates core issues on sustainable development with business development and innovation and vigorously promotes the long-term mechanism on sustainable development to set an example to the industry. During the Reporting Period, the Group was striving to meet the established strategic goal of reaching peak carbon emissions in 2030 and carbon neutrality in 2050. It also actively promoted the technical research on the reduction of fossil-carbon emissions and bio-carbon emissions and the implementation of specific measures.

During the Reporting Period, the sustainable development strategies and practices of the Group were widely recognized, and the Group was rated “BB” after completing the MSCI ESG rating questionnaire for the first time, becoming the first dairy farming enterprise in China awarded such rating. Our first response to the S & P Dow Jones CSA Questionnaire gained a score 64% above the industry average and better than 85% of companies in the industry.

During the Reporting Period, the Group built carbon accounting model for the upstream dairy industry chain. In order to further consolidate the carbon accounting model, the Group built a new carbon data module based on the EHSQ information system, which realized various functions from data collection, data accounting to data analysis, and provided important support for the precise implementation of carbon emission reduction policies.

## Management Discussion and Analysis

During the Reporting Period, with reference to the ISO 14067-2018 Requirements and Guidelines for Quantifying the GHG (Greenhouse Gas) Product Carbon Footprint, the Group initially measured the carbon footprint during the transportation of raw milk products and important raw materials such as silage, flaked corn, alfalfa and leymus chinensis at five dairy farms based on the LCA (Life Cycle Assessment) concept, and explored the direction of optimization according to the carbon footprint data, thus providing direction and support for reducing GHG emissions in the whole industry chain.

The Group continues to put the sustainable development strategy into practice by taking full advantage of the synergy between dairy farming and forage grass plantation segments. During the Reporting Period, the Group built ancillary forage grass plantation bases near its dairy farms, and actively cooperated with silage suppliers and other suppliers. The actual land area under the integrated plantation and dairy farming model was more than 2,500,000 mu.

The Group actively fulfilled its social responsibilities, provided job opportunities for local farmers and herdsman and helped them achieve income growth through businesses and technologies. The Group gave full play to its industrial and technological advantages to enhance the quality of agricultural products and agricultural output value, and increase farmers' production benefits. In addition, the Group formulated specific poverty alleviation policies in different regions to enhance the self-development ability of local farmers and herdsman to achieve mutual development.

### VII. PROSPECTS

During the Reporting Period, the upstream dairy industry in China was full of challenges and the supply of raw milk was temporarily excessive, but there is still a huge room for improvement in the per capita consumption of dairy products in China. With the resumption of normal operation of China's economy, the increase in per capita income of consumers and the improvement of consumers' health awareness, the development of China's dairy industry will be benefited, and the Group will continue to seize opportunities amid challenges.

Looking ahead, the Group will continue to adhere to the established strategy, implement the six core strategic initiatives, take innovation as the driving force, empower business through digitalization and lean management, fully leverage the strengths of our platform, whole industry chain and talents, adhere to green sustainable development, and build core competitiveness. Besides, the Group will improve the efficiency of operation and management, expand revenue and profit margins through cost reduction and efficiency enhancement, and continue to consolidate and expand its long-term advantages of "the most comprehensive industry chain, the largest scale, the best structure and layout and high-efficiency operation" to promote the sustainable and high-quality development of the Group and to create value for customers, Shareholders, employees and the society, thus contributing to the revitalization of China's dairy industry.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

Our revenue increased by 4.2% from RMB8,707 million for the 2022 Interim Period to RMB9,077 million for the Reporting Period.

The following table sets forth a breakdown of our revenue by our product types for the periods indicated:

	For the six months ended June 30,	
	2023 (RMB'000) (unaudited)	2022 (RMB'000) (unaudited)
Raw milk	6,156,918	5,219,010
Comprehensive ruminant farming solutions	2,919,737	3,487,945
<b>Total</b>	<b>9,076,655</b>	<b>8,706,955</b>

The increase in our total revenue was primarily due to the growth of raw milk business. Our revenue generated from raw milk increased by 18.0% from RMB5,219 million for the 2022 Interim Period to RMB6,157 million for the Reporting Period, which was mainly due to the increase of 24.4% in the sales volume of our raw milk from 1,127,736 tons for the 2022 Interim Period to 1,402,485 tons for the Reporting Period. Due to the decline in the price of raw milk resulting from the temporary unbalance of the supply and demand in domestic raw milk, the average unit price of raw milk of the Group was RMB4.39/kg for the Reporting Period, representing a decrease of 5.2% as compared to RMB4.63/kg for the 2022 Interim Period.

Our revenue generated from comprehensive ruminant farming solutions decreased by 16.3% from RMB3,488 million for the 2022 Interim Period to RMB2,920 million for the Reporting Period, which was mainly due to the Company's active initiation into the adjustments to sales strategy in a timely manner and its focus on high quality customers by strengthening risk management and proactive screening subject to the general environment such as the narrowing profit of dairy farming industry. Those initiations have the operational risks effectively controlled even if the revenue decreased in the short term.



## Management Discussion and Analysis

### Cost of sales

Our cost of sales increased by 5.0% from RMB8,142 million for the 2022 Interim Period to RMB8,552 million for the Reporting Period.

The following table sets forth a breakdown of our cost of sales before fair value adjustments by our product types for the periods indicated:

	For the six months ended June 30,	
	2023 (RMB'000) (unaudited)	2022 (RMB'000) (unaudited)
Raw milk	4,413,582	3,535,780
Comprehensive ruminant farming solutions	2,569,903	3,074,242
<b>Total</b>	<b>6,983,485</b>	<b>6,610,022</b>

The increase in cost of sales of the Group was primarily due to the growth of raw milk business and the effect of fair value adjustment on agricultural produce.

Cost of sales for raw milk business before raw milk fair value adjustments increased by 24.8% from RMB3,536 million for the 2022 Interim Period to RMB4,414 million for the Reporting Period, which was primarily due to new dairy farms being put into operation, the increase in the number of dairy cows, and the increase in raw material prices.

During the Reporting Period, the Group's average feed cost of premium raw milk and specialty raw milk was RMB2.49/kg, representing an increase of 2.5% from 2022 Interim Period, which was primarily due to the increase in feed ingredients and forage grass costs. Confronted with the severe situation of the rising feed cost, the Group took the following measures to mitigate the cost pressure: (i) deeply implementing the strategy of purchasing bulk raw and ancillary materials. The Group took advantage of the cooperation with strategic suppliers to conduct scale purchasing and improve its trading capacity; and (ii) applying innovative and technical means to continuously reduce cost and increase efficiency. During the Reporting Period, in order to respond to the high price of soybean meal, corn and alfalfa hay, the Group adopted bionic testing technology to optimize diet formula of cows, conducted a study to produce new feed products and improve the processing technique of forage grass, enrich the offerings of raw materials and forage grass, promoted and used cost-effective ingredients locally available to achieve precise nutrition, and applied the amino acid balance technique to increase the average milk yield of dairy cows and improve the feed conversion efficiency.

Cost of sales of comprehensive ruminant farming solutions business before forage grass fair value adjustments decreased by 16.4% from RMB3,074 million for the 2022 Interim Period to RMB2,570 million for the Reporting Period, which was primarily due to the decrease in sales volume.

Fair value adjustment on agricultural produce included in cost of sales increased by 2.4% from RMB1,532 million for the 2022 Interim Period to RMB1,569 million for the Reporting Period.

## Management Discussion and Analysis

### Gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest

Our gains arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest were RMB1,532 million for the 2022 Interim Period and RMB1,569 million for the Reporting Period, respectively, mainly due to the combined effect of the decline in the domestic selling price of raw milk, feed cost running high and the increase in sales volume. According to the requirements of IFRSs, agriculture produce shall be initially recognized at fair value less costs to sell at the point of harvest and the difference between fair value less costs to sell and the actual cost incurred shall be recognized in profit or loss.

### Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB2,097 million for the 2022 Interim Period, representing a gross profit margin of 24.1%, and a gross profit of RMB2,093 million for the Reporting Period, representing a gross profit margin of 23.1%.

The following table sets forth a breakdown of our gross profit and gross profit margin by raw milk business and comprehensive ruminant farming solutions business for the periods indicated:

	For the six months ended June 30,			
	2023	2022		
	RMB'000 (except for percentage) (unaudited)			
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Raw milk	1,743,336	28.3%	1,683,230	32.3%
Comprehensive ruminant farming solutions	349,834	12.0%	413,703	11.9%
Total	2,093,170	23.1%	2,096,933	24.1%

The decrease in gross profit margin was primarily due to the decrease in gross profit margin of raw milk business resulting from the overall decline of sale price of raw milk and feed cost staying at a high level.

The gross profit of the raw milk business increased from RMB1,683 million for the 2022 Interim Period to RMB1,743 million for the Reporting Period. The gross profit margin of the raw milk business decreased from 32.3% for the 2022 Interim Period to 28.3% for the Reporting Period, which was mainly due to (i) a decline of approximately 5% in the average sales price of raw milk per kilogram of the Group as compared to that in the 2022 Interim Period, because the decline in the price of raw milk resulting from the post-pandemic temporary unbalance of the supply and demand in domestic raw milk; and (ii) the high price of soybean meal, corn and alfalfa hay during the Reporting Period. The Group took measures to mitigate the cost pressure by deeply implementing the strategy of purchasing bulk raw and ancillary materials and applying innovative and technical means, but during the Reporting Period, the average feed cost of raw milk per kilogram of the Group increased by approximately 2.5% as compared to that in the 2022 Interim Period.

## Management Discussion and Analysis

The gross profit of the comprehensive ruminant farming solutions business decreased from RMB414 million for the 2022 Interim Period to RMB350 million for the Reporting Period. The gross profit margin of comprehensive ruminant farming solutions business increased from 11.9% for the 2022 Interim Period to 12.0% for the Reporting Period, mainly because of the increase in gross profit margin of the sales of ruminant farming products.

### Losses arising from changes in fair value less costs to sell of biological assets

Our losses arising from changes in fair value less costs to sell of biological assets changed from RMB852 million for the 2022 Interim Period to RMB2,263 million for the Reporting Period, which was primarily due to the decrease in the valuation of a single milkable cow resulting from various market factors such as the increase in feed cost and decline of sale price of raw milk, as well as the decrease in market price of beef and the higher proportion of reserve cows of the Group during the Reporting Period.

### Other income

Our other income increased by 7.2% from RMB168 million for the 2022 Interim Period to RMB181 million for the Reporting Period, which was primarily due to the increases in interest income from RMB8 million for the 2022 Interim Period to RMB19 million for the Reporting Period.

### Impairment losses under expected credit loss model, net of reversal

Our impairment losses under expected credit loss model, net of reversal decreased by 49.6% from RMB35 million for the 2022 Interim Period to RMB18 million for the Reporting Period, primarily due to the overall decrease in receivables attributable to the strict control over customers with credit terms by the Company.

### Other gains and losses

Our other gains and losses increased from a gain of RMB6 million for the 2022 Interim Period to a gain of RMB90 million for the Reporting Period, primarily due to the increase in the gain from fair value of financial assets of the Company.

### Selling and distribution expenses

Our selling and distribution expenses increased by 7.4% from RMB281 million for the 2022 Interim Period to RMB302 million for the Reporting Period, which was primarily due to the increase in storage fee resulting from certain reserve of raw materials at the beginning of the year to control the cost of raw materials and the year-on-year increase in taxes and surcharges. The proportion of selling and distribution expenses in our revenue increased from 3.2% for the 2022 Interim Period to 3.3% for the Reporting Period, primarily due to the increase in storage fee and taxes.

### Administrative expenses

Our administrative expenses increased by 9.5% from RMB329 million for the 2022 Interim Period to RMB361 million for the Reporting Period. The proportion of administrative expenses in our revenue increased from 3.8% for the 2022 Interim Period to 4.0% for the Reporting Period, primarily due to a year-on-year increase in expense ratio as the result of the reserve of management personnels for new dairy farms put into operation.

# Management Discussion and Analysis

## Other expenses

Our other expenses increased by 24.9% from RMB31 million for the 2022 Interim Period to RMB38 million for the Reporting Period, which was primarily due to a year-on-year increase in expenditures as the Company increased investment in R&D.

## Finance costs

Our finance costs increased by 9.7% from RMB512 million for the 2022 Interim Period to RMB562 million for the Reporting Period, which was primarily due to the increased interests for bank borrowings.

## (Loss)/profit before tax

As a result of the foregoing, we had a profit before tax of RMB233 million for the 2022 Interim Period, compared with a loss before tax of RMB1,206 million for the Reporting Period.

## Income tax expense

We recorded an increase of 11.9% in income tax expense from RMB33 million for the 2022 Interim Period to RMB37 million for the Reporting Period, primarily due to the growth of profit from taxable business.

## (Loss)/profit for the period

As a result of the foregoing, we generated a profit of RMB200 million for the 2022 Interim Period and generated a loss of RMB1,244 million for the Reporting Period, primarily due to (i) the decrease in the gross profit margin of our raw milk business resulting from the general decline in the sales price of raw milk domestically and the high feed costs; (ii) the increase in the sales volume of our raw milk for the Reporting Period by approximately 24.4% as compared to that of the 2022 Interim Period, but the increase in the sales volume of raw milk failed to fully offset the impact of lower gross margins on profits; and (iii) the significant increase in losses arising from changes in fair value less costs to sell of biological assets.

## Non-IFRSs measures

To supplement our consolidated financial information which is presented in accordance with IFRSs, we also use certain financial measures which is not required by, or presented in accordance with IFRSs. We believe that these non-IFRSs measures provide useful information to investors and others in understanding and evaluating our consolidated financial results in the same manner as our management.

The use of these non-IFRSs measures have limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Group's results of operations or financial condition as reported under IFRSs. The Group's presentation of such adjusted figure may not be comparable to a similar measure presented by other companies. However, the Group believes that these measures reflect the Group's normal operating results by adjusting for the potential impacts of certain non-recurring items, and thus facilitate comparisons of operating performance from period to period and company to company to the extent applicable.

## Management Discussion and Analysis

The Group uses the following financial measures that are not required by or presented in accordance with IFRSs:

- i. Cash EBITDA represents (loss)/profit for the period after adjusting the following items: (i) other gains and losses, (ii) impairment losses under expected credit loss model, net of reversal, (iii) losses arising from changes in fair value less costs to sell of biological assets, (iv) income tax expense, (v) finance costs, (vi) interest income, and (vii) depreciation and amortization charged to profit or loss.
- ii. Profit for the period (before biological assets fair value adjustments) represents (loss)/profit for the period excluding losses arising from changes in fair value less costs to sell of biological assets.
- iii. Adjusted (loss)/profit for the period attributable to owners of the Company represents (loss)/profit attributable to owners of the Company after adjusting the following items: (i) the difference between the effective interest of convertible notes recognized at amortized cost and the interest calculated at 4% of the nominal interest rate; and (ii) the reversal of litigation losses regarding the adjustments made to the consideration for acquisition of SKX.

The following tables reconcile cash EBITDA, profit for the period (before biological assets fair value adjustments) and adjusted (loss)/profit attributable to owners of the Company from the most directly comparable financial measure calculated and presented in accordance with IFRSs.

### CASH EBITDA

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
(Loss)/profit for the period	(1,243,568)	200,121
<b>Adjustments:</b>		
Other gains and losses	(90,396)	(5,747)
Impairment losses under the expected credit loss model, net of reversal	17,525	34,780
Losses arising from changes in fair value less costs to sell of biological assets	2,262,967	852,226
<b>Adjusted profit for the period</b>	<b>946,528</b>	<b>1,081,380</b>
<b>Adjustments:</b>		
Income tax expense	37,248	33,285
Finance costs	561,950	512,309
Interest income	(18,740)	(7,570)
Depreciation and amortization charged to profit or loss	278,300	218,202
<b>CASH EBITDA</b>	<b>1,805,286</b>	<b>1,837,606</b>

## Management Discussion and Analysis

### Profit for the period (before biological assets fair value adjustments)

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
(Loss)/profit for the period	(1,243,568)	200,121
Adjustments:		
Losses arising from changes in fair value less costs to sell of biological assets	2,262,967	852,226
Profit for the period (before biological assets fair value adjustments)	1,019,399	1,052,347

### Adjusted (loss)/profit for the period attributable to owners of the Company

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
(Loss)/Profit for the period attributable to owners of the Company	(992,017)	219,326
Adjustments :		
The difference between the interest of convertible notes recognized at amortized cost and the interest calculated at 4% of the nominal interest rate	132,814	239,075
Reversal of litigation losses regarding the adjustments made to the consideration for acquisition of SKX	–	21,278
Adjusted (loss)/profit for the period attributable to owners of the Company	(859,203)	437,123

# Management Discussion and Analysis

## Liquidity and Capital Resources

During the Reporting Period, the Group funded its cash requirements principally through a combination of cash generated from operating activities, bank borrowings and net proceeds from the Global Offering of the Company.

The following table sets forth our cash flows for the periods indicated:

	For the six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Net cash generated from operating activities	2,666,475	1,861,728
Net cash used in investing activities	(6,694,176)	(4,215,724)
Net cash generated from financing activities	3,816,200	3,736,490
Net (decrease)/increase in cash and cash equivalents	(211,501)	1,382,494
Effects of foreign exchange rate changes	2,578	3,370
Cash and cash equivalents at the beginning of the period	1,452,253	1,627,420
<b>Cash and cash equivalents at the end of the period</b>	<b>1,243,330</b>	<b>3,013,284</b>

## Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities was RMB2,666 million. During the 2022 Interim Period, net cash generated from operating activities was RMB1,862 million.

## Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities was RMB6,694 million, which was mainly attributable to (i) payments for feeding and purchasing biological assets of RMB2,525 million, (ii) payments for purchase of financial assets of RMB4,500 million, and (iii) payments for property, plant and equipment of RMB1,188 million, partially offset by the proceeds from the disposal of biological assets of RMB578 million and proceeds from disposal of financial assets of RMB910 million.

In the 2022 Interim Period, net cash used in investing activities was RMB4,216 million, which was mainly attributable to (i) payments for feeding and purchasing biological assets of RMB2,539 million, (ii) payments for investments in associates of RMB1,118 million, and (iii) payments for property, plant and equipment of RMB1,328 million, partially offset by the proceeds from the disposal of biological assets of RMB572 million.

## Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities was RMB3,816 million, which was mainly attributable to (i) new bank and other borrowings of RMB14,008 million, (ii) payment for the early redemption of convertible notes of RMB608 million, and (iii) repayment of principal and interest payments on bank and other borrowings of RMB9,316 million.

In the 2022 Interim Period, net cash generated from financing activities was RMB3,736 million, which was mainly attributable to new bank and other borrowings of RMB13,327 million, partially offset by repayment of bank and other borrowings of RMB9,201 million.

# Management Discussion and Analysis

## Indebtedness

	As of June 30, 2023 <i>RMB'000</i> (unaudited)	As of December 31, 2022 <i>RMB'000</i> (audited)
Bank borrowings		
Unsecured	24,270,294	18,838,786
Secured	1,387,001	1,560,901
Other borrowings	163,893	159,369
	<b>25,821,188</b>	20,559,056
The carrying amounts of the above borrowings are repayable:		
Within one year	18,201,796	13,827,675
More than one year but within two years	2,269,078	1,349,477
More than two years but within five years	3,934,480	3,892,704
More than five years	1,415,834	1,489,200
	<b>25,821,188</b>	20,559,056
Less: amounts due within 12 months shown under current liabilities	<b>(18,201,796)</b>	(13,827,675)
Amount shown under non-current liabilities	<b>7,619,392</b>	6,731,381
Lease liabilities	1,717,072	1,556,991
Less: amount due for settlement within 12 months shown under current liabilities	<b>(178,109)</b>	(131,604)
Amount due for settlement after 12 months shown under non-current liabilities	<b>1,538,963</b>	1,425,387
Other liabilities at amortized cost	7,121	14,252
Portion classified under current liabilities	<b>(7,121)</b>	(6,942)
Portion classified under non-current liabilities	–	7,310

## Contingent Liabilities

As of June 30, 2023, the Group had no significant contingent liability.



# Management Discussion and Analysis

## Net Gearing Ratio

As at June 30, 2023, the Group's net gearing ratio was 189.0%, representing an increase of 54 percentage points as compared to 135.0% as at December 31, 2022, mainly due to the increase in bank and other borrowings as a result of the centralized construction of various dairy farms by the Group on the golden milk source belt and the areas of scarce land resources with a long-term lack of raw milk situation. Net gearing ratio is calculated as net debt (equivalent to bank and other borrowings, plus convertible notes, less bank balances and cash, and less pledged and restricted bank deposits and deposits placed with a related party under current assets) divided by total equity and multiplied by 100%.

## Capital Commitment

As at June 30, 2023, the Group's capital commitment for the acquisition of property, plant and equipment and purchase of biological assets was RMB2,300 million (as at December 31, 2022: RMB2,998 million). The decrease over December 31, 2022 was primarily due to the decrease in expense for purchase of assets as the Group has completed the strategic blueprint of construction of dairy farms on the golden milk source belt, which led to significant reduction of investment scale in the future.

## Pledge of Assets

As at June 30, 2023, certain of the Group's bank and other borrowings had been secured by the pledge of the Group's assets, including 51.73% shares of SKX, 60.59% shares of Shanxi Youran Tianhe Dairy Co., Ltd. and 61.44 % shares of Tangshan Youran Dairy Co., Ltd. held by a wholly-owned subsidiary of the Company for a loan of the Group, pledged and restricted bank deposits in the carrying amount of RMB8 million and pledged receivables in the carrying amount of RMB24 million.

## Foreign Exchange Risk

The Group operates mainly in the PRC and majority of revenue and costs of goods sold and operations are denominated in RMB. Almost all of the revenue and costs are denominated in the Group entities' respective functional currency.

Several subsidiaries of the Company have foreign currency bank balances, which expose the Group to foreign currency risk. In addition, the Company has intra-group balances denominated in foreign currency with a subsidiary, which also exposes the Group to foreign currency risk.

The management of the Group has designated a member of the Group to monitor the Group's foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

## Significant Investments

Save as disclosed in this interim report, the Group did not make or hold any significant investments (including any investment in an investee company with a value of 5% or more of the Company's total assets as at June 30, 2023) during the Reporting Period.

# Management Discussion and Analysis

## Future Plans for Material Investments and Capital Assets

Save as disclosed in this interim report, as of June 30, 2023, the Group did not have other plans for material investments and capital assets.

## Material Acquisitions and/or Disposals

As of June 30, 2023, the Group did not have any material acquisitions and/or disposals of subsidiaries, associates or joint ventures.

## Employee and Remuneration Policy

The following table sets forth the numbers of full-time staff dedicated to our business and operations categorized by function as at June 30, 2023.

Function	Number of Staff	% of Total
Management personnel	1,353	11.6%
Administrative personnel <sup>Note 1</sup>	1,381	11.9%
Technicians	2,443	21.0%
Salespersons	331	2.8%
Skilled workers <sup>Note 2</sup>	5,232	44.9%
Housekeepers <sup>Note 3</sup>	913	7.8%
<b>Total</b>	<b>11,653</b>	<b>100%</b>

*Notes:*

- Administrative personnel primarily include staff who are responsible for human resources, finance and other administrative corporate functions.
- Skilled workers primarily include electricians, maintenance workers, vehicle drivers in connection with our dairy farming activities and chefs that support our daily operations.
- Housekeepers primarily include cleaning operatives.

## Management Discussion and Analysis

Our success depends on our ability to attract, retain, motivate qualified employees and maintain a stable core management and technical team. In this regard, the Group adheres to “building an efficient talent supply chain”, and makes overall deployment covering talent guarantee, capacity building, vitalizing, cultural construction, remuneration management and the improvement of labor efficiency. In particular,

- i. Human resources guarantee: we established cooperation relationships with colleges to achieve the integration of industry, teaching and research and continuously introduce quality industry talents. We built a versatile management team whose members have the same major and multiple skills, continued to improve the dual-track promotion mechanism of management and specialty, and upgraded the qualification management system to enhance the support of the career development of employees on our strategy.
- ii. Capacity building: in order to build a talent team with strategic significance, the Group opened a career development path integrated with employee development and talent cultivation, strengthened the “combination of training and practice”, and based on a perfect talent cultivation system, cultivated elite employees in various forms, such as rotation training, online classes, offline special classes, talent cooperation and overseas study, to establish a hierarchical, branded and digitalized talent cultivation system. At the same time, the Group provided regular training and evaluation to its employees to enhance their performance.
- iii. Organization activation and reform motivation: during the Reporting Period, we initiated the reorganization program, through which we achieved resource integration and function refinement and would empower business and activate the organization in a better way. Meanwhile, we continued to promote strategic performance change projects to enhance the undertaking of strategic/organizational key value and motivate employees to become outstanding value creators. In addition, we made incentives in innovation, revenue generation and cost reduction to improve non-material incentive programs.
- iv. Cultural construction: under the guidance of our vision, the Group formulated the strategic development direction, deepened the operation and management philosophy and staff code of conduct, so as to strengthen cultural communication, system integration, value evaluation management and innovation. The Group has established a culture assessment mechanism, enhanced cultural integration and cultural influence, and promoted the incorporation of corporate culture into the whole process of the Company’s operation and management to create a cognition of culture aligned with the action, and build its irreproducible core competitiveness.
- v. Remuneration management and improvement of labor efficiency: the Group matched position value up with salary from four perspectives, namely position, performance, competence and market condition, and implemented a comprehensive remuneration management system based on market changes, continued to review and make lean analysis on the efficiency of job positions, and further improved the Group’s per capita labor efficiency with measures such as the introduction of automated equipment, the change of management mode and the application of digital technology.

During the Reporting Period, the Group’s total remuneration expenses, excluding share-based payments expenses and contributions to pension plans, for the Reporting Period were RMB775 million, representing an increase of 12.3% as compared to RMB690 million for the 2022 Interim Period.

### Significant Events after the Reporting Period

Save as disclosed in this interim report, no significant events affecting the Group have occurred since the end of the Reporting Period and up to the Latest Practicable Date.

## Other Information

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at June 30, 2023, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2023, so far as is known to any Director or chief executive of the Company, the following parties (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Number of Shares <sup>Note 1</sup>	Percentage of issued share capital (%) <sup>Note 2</sup>
Yili <sup>Note 3</sup>	Interest in controlled corporations	1,320,800,000(L)	34.80(L)
China Youran Dairy Holding Limited <sup>Note 3</sup>	Beneficial interest	800,000,000(L)	21.08(L)
Jingang <sup>Note 3</sup>	Beneficial interest	520,800,000(L)	13.72(L)
PAG <sup>Note 4</sup>	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
Pacific Alliance Group Limited <sup>Note 4</sup>	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
Shan Weijian <sup>Note 4</sup>	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
PAG Capital Limited <sup>Note 4</sup>	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
PAG Dairy GP I Limited <sup>Note 4</sup>	Interest in controlled corporations	1,044,550,742(L)	27.52(L)
PAG Dairy I LP <sup>Note 4</sup>	Interest in controlled corporations	1,044,550,742(L)	27.52(L)

## Other Information

Name of Shareholder	Nature of interest	Number of Shares <sup>Note 1</sup>	Percentage of issued share capital (%) <sup>Note 2</sup>
PAG II <sup>Note 4</sup>	Beneficial interest	822,602,530(L)	21.67(L)
PAG III <sup>Note 4</sup>	Beneficial interest	221,948,212(L)	5.85(L)
PAG Asia Capital GP I Limited <sup>Note 4</sup>	Interest in controlled corporations	371,583,651(L)	9.79(L)
PAG Asia I LP <sup>Note 4</sup>	Interest in controlled corporations	371,583,651(L)	9.79(L)
PAG I <sup>Note 4</sup>	Beneficial interest	371,583,651(L)	9.79(L)
Meadowland Investment Limited Partnership <sup>Note 5</sup>	Beneficial interest	564,982,819(L)	14.89(L)

### Notes:

- The letter "L" denotes the Shareholder's long position in such Shares.
- The percentages are calculated on the basis of 3,795,404,000 Shares in issue as at June 30, 2023.
- China Youran Dairy Holding Limited directly held 800,000,000 Shares and HONGKONG JINGANG TRADE HOLDING CO., LIMITED (香港金港商貿控股有限公司) ("Jingang") directly held 520,800,000 Shares. Each of China Youran Dairy Holding Limited and Jingang is a wholly-owned subsidiary of Yili. Accordingly, Yili was deemed to be interested in an aggregate of 1,320,800,000 Shares.
- PAGAC Yogurt Holding I Limited ("PAG I") directly held 371,583,651 Shares in the long position, and PAGAC Yogurt Holding II Limited ("PAG II") held 822,602,530 Shares in the long position. In addition, PAGAC Yogurt Holding III Limited ("PAG III") was interested in 221,948,212 Shares by way of subscription of convertible notes in the amount of US\$99 million. PAG I, PAG II and PAG III are each wholly-owned subsidiaries of funds managed by PAG Capital Limited. PAG I is a wholly-owned subsidiary of PAG Asia I LP, whose general partner is PAG Asia Capital GP I Limited. Accordingly, PAG Asia I LP and PAG Asia Capital GP I Limited were deemed to be interested in 371,583,651 Shares. PAG II and PAG III are each wholly-owned subsidiaries of PAG Dairy I LP, whose general partner is PAG Dairy GP I Limited. Accordingly, PAG Dairy I LP and PAG Dairy GP I Limited were deemed to be interested in an aggregate of 1,044,550,742 Shares. PAG Capital Limited is indirectly held as to 100% by Pacific Alliance Group Limited, which is in turn indirectly held as to 100% by PAG. PAG is indirectly held as to 34.67% by Mr. Shan Weijian. Accordingly, PAG Capital Limited, Pacific Alliance Group Limited, Mr. Shan Weijian and PAG were deemed to be interested in an aggregate of 1,416,134,393 Shares in the long position.
- Meadowland Investment Limited Partnership is an exempted limited partnership established under the laws of the Cayman Islands.

Save as disclosed above, as at June 30, 2023, so far as the Directors and chief executive of the Company are aware, no other parties had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## Other Information

### USE OF PROCEEDS FROM LISTING

The Shares were listed on the Main Board of the Stock Exchange on June 18, 2021. The net proceeds from the Global Offering were approximately HK\$3,270 million (approximately RMB2,711 million), after deducting the underwriting commissions and offering expenses paid or payable, which will be gradually utilized for the purposes as set out in the Prospectus.

There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus. Set out below is the status of use of net proceeds from the Global Offering as of June 30, 2023.

Purpose	% of net proceeds	Net proceeds (RMB million)	Utilized amount as at June 30, 2023 (RMB million)	Utilized amount during the Reporting Period (RMB million)	Unutilized amount as at June 30, 2023 (RMB million)
Funding our investment projects over the next two years, including building our dairy farms under construction, new dairy farms and a feed mill and purchasing necessary facilities and equipment, to meet our increasing business demands and achieve sustainable growth through economies of scale	75%	2,033	1,717	144	316
Purchasing dairy cows for our dairy farms	15%	407	407	–	–
Working capital and general corporate purposes	10%	271	271	–	–
Total	100%	2,711	2,395	144	316

The Company expects to apply the remaining unutilized net proceeds of RMB316 million for the Group's dairy farms under construction by December 31, 2023.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

## Other Information

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board to all Shareholders. During the Reporting Period, the Company had adopted and complied with all the applicable code provisions of the Corporate Governance Code. The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain high corporate governance standards.

### COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific inquiry of all the Directors, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code for the Reporting Period.

### AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of our Group. The Audit Committee comprises three members, namely Ms. Xie Xiaoyan (謝曉燕), Mr. Yao Feng (姚峰) and Mr. Qiu Zhongwei (邱中偉), with Ms. Xie Xiaoyan (謝曉燕) (being our independent non-executive Director with the appropriate professional qualifications or accounting or related financial management expertise) as chairperson of the Audit Committee.

The Audit Committee has reviewed the unaudited interim financial statements of the Group and the interim report for the Reporting Period and discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the Auditor.

The condensed consolidated financial statements for the Reporting Period have been reviewed by the Auditor, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Accounting Standards Board.

### OTHER BOARD COMMITTEES

In addition to the Audit Committee, the Company has also established a nomination committee and a remuneration committee.

## Other Information

### INTERIM DIVIDEND

The Board did not recommend the distribution of an interim dividend for the six months ended June 30, 2023.

### Changes in Information of Directors

Mr. Zhang Yujun has resigned as a non-executive Director and the chairman of the Board of the Company with effect from July 28, 2023.

Mr. Wu Xiang has been appointed as a non-executive Director and the chairman of the Board of the Company with effect from July 28, 2023.

Save as disclosed above, as of the Latest Practicable Date, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### INVESTOR RELATIONS

The Company has adopted active policies to promote relationship and communications with investors. The Company organizes meetings and events with people from the investing sector from time to time to respond to their inquiries about the Company and enable institutional investors and financial analysts to have a better understanding of the industry prospects and the Company's businesses, and to ensure that mutual communication in respect of the Company's performance and development is maintained. You are welcome to send letters to [youranir@yourandairy.com](mailto:youranir@yourandairy.com) or visit the website of the Company ([www.yourandairy.com](http://www.yourandairy.com)) to get updated news of the Company.



# Report on Review of Condensed Consolidated Financial Statements

**Deloitte.**

**德勤**

To the Board of Directors of China Youran Dairy Group Limited  
(Incorporated in the Cayman Islands with limited liability)

## Introduction

We have reviewed the condensed consolidated financial statements of China Youran Dairy Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 40 to 77, which comprise the condensed consolidated statement of financial position as of June 30, 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

August 25, 2023

## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2023

	NOTES	Six months ended June 30,	
		2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Revenue	4	9,076,655	8,706,955
Cost of sales	5	(8,552,343)	(8,142,314)
Gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		1,568,858	1,532,292
Gross profit		2,093,170	2,096,933
Losses arising from changes in fair value less costs to sell of biological assets		(2,262,967)	(852,226)
Other income	6	180,508	168,446
Impairment losses under expected credit loss model, net of reversal	17	(17,525)	(34,780)
Other gains and losses	7	90,396	5,747
Selling and distribution expenses		(301,863)	(281,011)
Administrative expenses		(360,737)	(329,296)
Other expenses		(38,211)	(30,593)
Share of (loss)/profit of a joint venture		(259)	4
Share of (losses)/profits of associates		(26,882)	2,491
Finance costs	8	(561,950)	(512,309)
(Loss)/profit before tax		(1,206,320)	233,406
Income tax expense	9	(37,248)	(33,285)
(Loss)/profit for the period	10	(1,243,568)	200,121
<b>Other comprehensive (expense)/income, net of income tax</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		(5,717)	(168)
Exchange differences arising on translation from functional currency to presentation currency		541,295	767,811
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences arising on translation of foreign operations		(690,504)	(900,994)
Other comprehensive expense for the period, net of income tax		(154,926)	(133,351)
Total comprehensive (expense)/income for the period		(1,398,494)	66,770
(Loss)/profit for the period attributable to:			
Owners of the Company		(992,017)	219,326
Non-controlling interests		(251,551)	(19,205)
		(1,243,568)	200,121
Total comprehensive (expense)/income for the period attributable to:			
Owners of the Company		(1,144,647)	86,050
Non-controlling interests		(253,847)	(19,280)
		(1,398,494)	66,770
		RMB	RMB
(Loss)/earnings per share	11		
Basic		(0.26)	0.06
Diluted		(0.26)	0.06

# Condensed Consolidated Statement of Financial Position

At June 30, 2023

	NOTES	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	13	13,630,556	12,965,610
Investment properties		22,850	23,815
Right-of-use assets	13	2,604,930	2,455,583
Goodwill	14	792,980	792,980
Intangible assets		22,350	23,163
Biological assets	15	13,409,318	13,221,418
Deferred tax assets		27,399	24,345
Interests in associates	19	1,167,607	1,156,647
Interest in a joint venture		4,703	4,758
Equity instruments at fair value through other comprehensive income ("FVTOCI")		22,349	28,066
Pledged and restricted bank deposits		11,427	11,667
Deposits paid for purchase of property, plant and equipment		676,422	708,316
Deposits paid for purchase of biological assets		184,559	459,138
Deposits paid for right-of-use assets		67,181	1,601
Prepayments, deposits and other receivables	18	28,914	–
		<b>32,673,545</b>	<b>31,877,107</b>
<b>Current assets</b>			
Inventories		3,302,763	4,692,784
Trade receivables	16	1,042,402	1,312,099
Bills receivables		1,000	–
Contract assets		3,766	7,116
Biological assets	15	447	8,490
Prepayments, deposits and other receivables	18	486,957	858,465
Financial assets at fair value through profit or loss ("FVTPL")	20	5,602,311	1,919,338
Amounts due from related parties	27	988,201	917,568
Pledged and restricted bank deposits		404,793	401,097
Bank balances and cash		924,630	936,358
Deposits placed with a related party	27	318,700	515,895
		<b>13,075,970</b>	<b>11,569,210</b>
<b>Current liabilities</b>			
Trade and bills payables	21	1,685,545	2,688,578
Other payables and accruals	22	1,660,997	1,893,511
Contract liabilities		32,392	41,895
Amounts due to related parties	27	44,569	47,338
Bank and other borrowings	23	18,201,796	13,827,675
Lease liabilities		178,109	131,604
Convertible notes	24	797,844	1,206,200
Other liabilities		7,121	6,942
Other provisions		19,807	19,807
Income tax payable		24,790	32,734
		<b>22,652,970</b>	<b>19,896,284</b>

# Condensed Consolidated Statement of Financial Position

At June 30, 2023

	NOTES	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Net current liabilities		(9,577,000)	(8,327,074)
Total assets less current liabilities		23,096,545	23,550,033
<b>Non-current liabilities</b>			
Bank and other borrowings	23	7,619,392	6,731,381
Deferred tax liabilities		7,635	6,192
Deferred income		709,157	619,510
Lease liabilities		1,538,963	1,425,387
Other liabilities		–	7,310
Other provisions		9,361	9,124
		9,884,508	8,798,904
<b>Net assets</b>		13,212,037	14,751,129
<b>Capital and reserves</b>			
Share capital	25	251	251
Reserves		11,797,375	13,063,495
Equity attributable to owners of the Company		11,797,626	13,063,746
Non-controlling interests		1,414,411	1,687,383
<b>Total equity</b>		13,212,037	14,751,129

The condensed consolidated financial statements on pages 40 to 77 were approved and authorized for issue by the board of directors on August 25, 2023 and are signed on its behalf by:

Yuan Jun  
Director

Dong Jiping  
Director

# Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2023

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Convertible notes equity reserve RMB'000	Capital reserve RMB'000	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2023 (audited)	251	7,349,088	188,567	677,081	(4,926)	(1,334)	(164,329)	597,884	4,421,464	13,063,746	1,687,383	14,751,129
Loss and total comprehensive expense for the period	-	-	-	-	-	(3,336)	(149,294)	-	(992,017)	(1,144,647)	(253,847)	(1,398,494)
Dividends paid to owners of the Company (Note 12)	-	-	-	-	-	-	-	-	(83,499)	(83,499)	-	(83,499)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(19,125)	(19,125)
Partial redemption of convertible notes (Note 24)	-	-	-	(37,974)	-	-	-	-	-	(37,974)	-	(37,974)
At June 30, 2023 (unaudited)	251	7,349,088	188,567	639,107	(4,926)	(4,670)	(313,623)	597,884	3,345,948	11,797,626	1,414,411	13,212,037
At January 1, 2022 (audited)	251	7,342,303	188,567	963,384	(4,926)	2,676	84,079	398,376	4,206,201	13,180,911	1,699,000	14,879,911
Profit/(loss) and total comprehensive (expense)/income for the period	-	-	-	-	-	(98)	(133,178)	-	219,326	86,050	(19,280)	66,770
At June 30, 2022 (unaudited)	251	7,342,303	188,567	963,384	(4,926)	2,578	(49,099)	398,376	4,425,527	13,266,961	1,679,720	14,946,681

# Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2023

	NOTES	Six months ended June 30,	
		2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations		2,694,538	1,890,413
Interest received		18,740	7,570
Income taxes paid		(46,803)	(36,255)
Net cash from operating activities		2,666,475	1,861,728
<b>INVESTING ACTIVITIES</b>			
Payments for property, plant and equipment		(1,188,421)	(1,327,888)
Payments for right-of-use assets		(81,296)	(26,335)
Proceeds from disposal of property, plant and equipment		18,544	734
Payments for biological assets		(2,525,172)	(2,538,651)
Payments for intangible assets		(130)	(7,827)
Proceeds from disposal of biological assets		578,234	571,830
Purchase of financial assets at FVTPL		(4,500,000)	–
Proceeds from disposal of financial assets at FVTPL		910,351	–
Placement of pledged and restricted bank deposits		(62,922)	(4,100)
Withdrawal of pledged and restricted bank deposits		59,466	34,013
Receipt of government grants for assets		95,295	200,864
Receipt arising a sublease classified as a finance lease		1,875	–
Investments in associates		–	(1,118,364)
Net cash used in investing activities		(6,694,176)	(4,215,724)
<b>FINANCING ACTIVITIES</b>			
New bank and other borrowings raised		14,008,172	13,327,188
Repayments of bank and other borrowings		(8,818,366)	(9,201,154)
Interest paid for bank borrowings		(497,709)	(194,553)
Repayment of lease liabilities		(85,189)	(95,884)
Interest paid for lease liabilities		(37,071)	(32,501)
Repayment of other liabilities		(7,500)	(7,500)
Dividends paid to owners of the Company	12	(83,499)	–
Dividends paid to non-controlling interests		(19,125)	–
Pledged receivables for bank borrowings	18	(23,758)	–
Payments of interest for convertible notes	24	(11,923)	(59,106)
Payments of partial redemption of convertible notes	24	(607,832)	–
Net cash from financing activities		3,816,200	3,736,490
Net (decrease)/increase in cash and cash equivalents		(211,501)	1,382,494
Cash and cash equivalents at beginning of the period		1,452,253	1,627,420
Effect of foreign exchange rate changes		2,578	3,370
Cash and cash equivalents at end of the period, represented by bank balances and cash and deposits placed with a related party		1,243,330	3,013,284

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 1. GENERAL INFORMATION

China Youran Dairy Group Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since June 18, 2021. The address of the Company’s registered office is 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands. The principal place of business of the Company is No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, the People’s Republic of China (the “PRC”).

The Company and its subsidiaries (together, the “Group”) is primarily engaged in the production and sale of raw milk, and the trading, production and sale of feeds, ruminant farming products and breeding products in the PRC.

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is different from the Company’s functional currency of United States dollars (“USD”). The directors of the Company adopted RMB as presentation currency because the Group primarily conducts its business in the PRC.

## 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Going concern assessment

As at June 30, 2023, the Group had net current liabilities of RMB9,577 million. The condensed consolidated financial statements have been prepared on a going concern basis, because the directors of the Company are of the opinion that based on a cash flow forecast of the Group for the 12 months ending June 30, 2024 prepared by the management, the Group would have adequate funds to meet its liabilities as and when they fall due for at least 12 months from June 30, 2023. Based on the forecast, the sufficiency of the Group’s working capital for the next 12 months depends on the Group’s ability to obtain the anticipated cash flows from the Group’s operating activities, the available unutilized bank loan facilities obtained and the successful renewal of certain bank loan facilities amounting to an aggregate amount of approximately RMB5.8 billion within 12 months from June 30, 2023.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for (i) the biological assets, which are measured at fair value less costs to sell; and (ii) certain financial instruments that are measured at fair values at the end of the reporting period.

Other than the accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2023 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2022.

### Application of new and amendments to IFRSs

In the current interim period, the Group has applied the following new and amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2023 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	<i>Insurance Contracts</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform-Pillar Two model Rules</i>

The application of new and amendments to IFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 4. REVENUE AND SEGMENT INFORMATION

### Disaggregation of revenue from contracts with customers

	Six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Types of goods:		
Sales of raw milk	6,156,918	5,219,010
Sales of feeds	2,639,242	3,181,389
Sales of ruminant farming products	185,985	246,264
Sales of breeding products	94,510	60,292
	9,076,655	8,706,955
Timing of revenue recognition:		
A point in time	9,076,655	8,706,955

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

For the six months ended June 30, 2023 (unaudited)

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
<b>Segment revenue</b>					
External customers	6,156,918	2,919,737	9,076,655	-	9,076,655
Inter-segment revenue	-	1,117,487	1,117,487	(1,117,487)	-
	6,156,918	4,037,224	10,194,142	(1,117,487)	9,076,655
<b>Segment results</b>	1,317,336	203,963	1,521,299		1,521,299
Losses arising from changes in fair value less costs to sell of biological assets					(2,262,967)
Share of losses of associates					(26,882)
Share of loss of a joint venture					(259)
Fair value gain on financial assets at FVTPL					93,324
Unallocated other income and expense					(63,860)
Unallocated finance costs					(466,975)
Loss before tax					(1,206,320)

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 4. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Segment revenue and results *(Continued)*

For the six months ended June 30, 2022 (unaudited)

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
<b>Segment revenue</b>					
External customers	5,219,010	3,487,945	8,706,955	–	8,706,955
Inter-segment revenue	–	992,797	992,797	(992,797)	–
	5,219,010	4,480,742	9,699,752	(992,797)	8,706,955
<b>Segment results</b>	1,448,212	112,863	1,561,075		1,561,075
Losses arising from changes in fair value less costs to sell of biological assets					(852,226)
Share of profits of associates					2,491
Share of profit of a joint venture					4
Unallocated other income and expense					(58,734)
Unallocated finance costs					(419,204)
Profit before tax					233,406

### Segment assets and liabilities

The chief operating decision maker (the "CODM") makes decisions according to operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 4. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Other segment information

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
For the six months ended June 30, 2023 (unaudited)					
Amounts included in the measure of segment profit or loss:					
Depreciation and amortization charged to profit or loss	243,982	31,715	275,697	2,603	278,300
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	(207)	17,732	17,525	–	17,525
Fair value gain on derivative financial instruments	(2,920)	(258)	(3,178)	–	(3,178)
Loss on termination of lease agreements	477	–	477	–	477
Loss/(gain) on disposal of property, plant and equipment	8,037	(207)	7,830	–	7,830
Interest income	(6,621)	(1,933)	(8,554)	(10,186)	(18,740)
Finance costs	94,036	939	94,975	466,975	561,950
Amounts not included in the measure of segment profit or loss or segment assets					
Additions to non-current assets (Note)	4,095,259	55,597	4,150,856	–	4,150,856
Investments in associates	–	–	–	1,167,607	1,167,607
Investment in a joint venture	–	–	–	4,703	4,703
Share of losses of associates	–	–	–	26,882	26,882
Share of loss of a joint venture	–	–	–	259	259

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 4. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Other segment information *(Continued)*

	Raw milk business RMB'000	Comprehensive ruminant farming solutions RMB'000	Segment total RMB'000	Unallocated RMB'000	Total RMB'000
<b>For the six months ended June 30, 2022 (unaudited)</b>					
<b>Amounts included in the measure of segment profit or loss:</b>					
Depreciation and amortization charged to profit or loss	185,326	27,226	212,552	5,650	218,202
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	3,489	31,291	34,780	–	34,780
Fair value losses on derivative financial instruments	21,209	–	21,209	–	21,209
Gain on termination of lease agreements	(715)	–	(715)	–	(715)
Reversal of provision regarding to a civil litigation	(4,247)	–	(4,247)	–	(4,247)
Reversal of provision regarding the adjustments made to the consideration for acquisition of SKX (as defined in Note 14)	(21,278)	–	(21,278)	–	(21,278)
Loss on disposal of property, plant and equipment	1,056	121	1,177	–	1,177
Interest income	(5,549)	(1,923)	(7,472)	(98)	(7,570)
Finance costs	85,873	7,232	93,105	419,204	512,309
<b>Amounts not included in the measure of segment profit or loss or segment assets</b>					
Additions to non-current assets (Note)	4,225,032	63,852	4,288,884	179	4,289,063
Investments in associates	–	–	–	1,156,647	1,156,647
Investment in a joint venture	–	–	–	4,758	4,758
Share of profits of associates	–	–	–	(2,491)	(2,491)
Share of profit of a joint venture	–	–	–	(4)	(4)

Note: Non-current assets excluded goodwill, financial instruments, deferred tax assets, interests in associates, interest in a joint venture and non-current assets acquired through business combination.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 4. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Geographic information

Since all revenue from external customers of the Group is derived from the customers located in Mainland China and all of the non-current assets are located in Mainland China, therefore no geographic information is presented.

### Revenue from major customers

Revenue from the customer individually contributing over 10% of the total revenue of the Group is as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Customer A:		
Revenue from sales of raw milk	5,978,328	5,028,566
Revenue from sales of feeds	75,613	51,334
Revenue from ruminant farming products	51	144
Revenue from breeding products	6,381	7,357

## 5. COST OF SALES

An analysis of cost of sales is as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of raw milk sold before fair value adjustments	4,413,582	3,535,780
Raw milk fair value adjustments	1,583,197	1,530,366
Cost of raw milk sold after fair value adjustments	5,996,779	5,066,146
Cost of feeds sold before forage grass and other agriculture products fair value adjustments	2,364,371	2,831,411
Forage grass and other agriculture products fair value adjustments	(14,339)	1,926
Cost of feeds sold after fair value adjustments	2,350,032	2,833,337
Cost of ruminant farming products sold	155,332	212,323
Cost of breeding products	50,200	30,508
Total cost of sales	8,552,343	8,142,314

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 6. OTHER INCOME

An analysis of other income is as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants released from deferred income	63,055	61,960
Incentive subsidies	78,888	78,759
Rental income	5,210	4,301
Bank interest income	15,303	4,467
Interest income from Yili Group (as defined in Note 27)	3,437	3,103
Income from sale of scrap materials	6,017	5,976
Compensation income	294	3,461
Write-back of other payables	3,897	1,271
Others	4,407	5,148
	<b>180,508</b>	<b>168,446</b>

## 7. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Foreign exchange differences, net	1,406	1,879
Loss on disposal of property, plant and equipment, net	(7,830)	(1,177)
Fair value gain/(loss) on derivative financial instruments (Note)	3,178	(21,209)
Fair value gain on financial assets at FVTPL	93,324	–
Loss on partial redemption of convertible notes	(918)	–
(Loss)/gain on termination of lease agreements	(477)	715
Reversal of provision regarding to a civil litigation	–	4,247
Reversal of provision regarding the adjustments made to the consideration for acquisition of SKX	–	21,278
Recovery of pre-acquisition doubtful debt of SKX Group	871	–
Others	842	14
	<b>90,396</b>	<b>5,747</b>

Note:

The fair value changes represent gains/losses on commodity forward contracts entered for as an economic hedge of the market price fluctuations on soybean meal and corn. The Group did not have open positions at the end of the interim period.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 8. FINANCE COSTS

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank and other borrowings	409,464	190,444
Other liabilities	369	540
Lease liabilities	37,144	32,501
Unwinding of the discount of other provisions	237	226
Convertible notes (Note 24)	144,737	298,181
	591,951	521,892
Less: Amounts capitalized to construction in progress	(30,001)	(9,583)
	561,950	512,309

Borrowing costs capitalized to qualifying assets were based on actual borrowing costs incurred for specific and general borrowings.

## 9. INCOME TAX EXPENSE

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax ("EIT")	38,804	42,940
Under (over) provision in prior periods:		
PRC EIT	55	(3,951)
Deferred tax	(1,611)	(5,704)
	37,248	33,285

The Company is incorporated as an exempted company and as such is not subject to Cayman Islands taxation.

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Pursuant to the prevailing tax rules and regulation in the PRC, certain subsidiaries of the Company are exempted from PRC EIT for taxable profit from the operation of agricultural business in the PRC. In addition, certain subsidiaries operating in the PRC, including Inner Mongolia Youran Dairy Co., Ltd., Inner Mongolia Muquan Yuanxing Feeds Co., Ltd., Ningxia Yikangyuan Bio-Technology Co., Ltd., Wulanchabu Muquan Yuanxing Feed Co., Ltd. and Bayannur Muquan Yuanxing Feed Co., Ltd. are eligible for preferential tax rate of 15% under relevant preferential tax policy in relation to PRC western development. According to the preferential tax policy of Ningxia, the PRC, for promoting local investment (Ningzheng Fa [2012] No. 97), Ningxia Yikangyuan Bio-Technology Co., Ltd. is eligible for 20% EIT reduction from 2021 to 2023 on the basis of 15% tax rate. According to preferential tax policy of Heilongjiang, the PRC, for promoting local investment (Heizheng Han[2021] No.102), Duerbote Muquan Yuanxing Feeds Co., Ltd. is eligible for 40% EIT reduction from 2022.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, except for the preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group operating in the PRC are subject to EIT at the statutory rate of 25%.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 10. (LOSS)/PROFIT FOR THE PERIOD

The Group's (loss)/profit for the period is arrived at after charging:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of:		
Property, plant and equipment	428,744	339,968
Investment properties	965	965
Right-of-use assets	102,215	79,438
Amortization of intangible assets	949	812
Total depreciation and amortization	532,873	421,183
Less: Capitalized in biological assets	(220,885)	(163,022)
Capitalized in construction in progress	(3,457)	(5,180)
Capitalized in inventories	(30,231)	(34,779)
Depreciation and amortization charged directly to profit or loss	278,300	218,202
Research and development costs recognized in profit or loss	34,303	27,739
Employee benefits expense:		
Salaries and allowances	774,948	690,304
Retirement benefit scheme contributions	92,075	75,473
Total staff costs	867,023	765,777
Less: Capitalized in biological assets	(210,858)	(185,539)
	656,165	580,238

## 11. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share	(992,017)	219,326

	Six months ended June 30,	
	2023	2022
	'000	'000
	(unaudited)	(unaudited)
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	3,795,404	3,795,404

The computation of diluted (loss)/earnings per share for the six months ended June 30, 2023 and 2022 does not assume the conversion of the Company's outstanding convertible notes since their assumed conversion would result in a decrease in loss per share or an increase in earnings per share.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 12. DIVIDEND

During the current interim period, a final dividend of RMB0.022 per share in respect of the year ended December 31, 2022 (six months ended June 30, 2022: nil) was declared and paid to owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to RMB83,499,000 (six months ended June 30, 2022: nil).

## 13. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, construction in progress of the Group was increased with an aggregate amount of RMB791,828,000 (six months ended June 30, 2022: RMB1,096,736,000) for the expansion of dairy farming operations.

During the current interim period, the Group entered into several new lease agreements with lease terms ranged from 1.25 to 30 years. On lease commencement, the Group recognized right-of-use assets of RMB260,912,000 (six months ended June 30, 2022: RMB222,490,000) and lease liabilities of RMB245,196,000 (six months ended June 30, 2022: RMB197,186,000).

## 14. GOODWILL

	Six months ended June 30,	
	2023 RMB'000	2022 RMB'000
<b>CARRYING AMOUNT:</b>		
At beginning of the period (audited)	792,980	792,980
Acquisition of subsidiaries	–	–
At the end of the period (unaudited)	792,980	792,980

For the purpose of impairment testing, goodwill has been allocated to two individual cash-generating units (“CGUs”). The Group’s goodwill of RMB762,741,000 arose from acquisition of Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技术(集團)股份有限公司) (“SKX”, together with its subsidiaries, collectively “SKX Group”) in 2020, and RMB30,239,000 arose from acquisition of Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd. (collectively as “Fonterra China Farms Group”) in 2021. SKX Group and Fonterra China Farms Group mainly engaged in dairy farming business.

As at June 30, 2023, the recoverable amount of SKX Group exceeds its carrying amount by RMB217,005,000. If the discount rate was increased by 0.23%, the growth rate beyond the five-year period was reduced by 0.25%, while other parameters remain constant, the recoverable amount of SKX Group would equal to its carrying amount.

Based on management’s assessment, there is no indication that the goodwill of Fonterra China Farms Group has suffered an impairment since the acquisition. The management will assess the impairment of goodwill at least annually.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 15. BIOLOGICAL ASSETS

The fair value of biological assets at the end of the reporting period is set out below:

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Dairy cows:		
Calves and heifers	6,120,467	5,931,614
Milkable cows	7,134,044	7,204,357
Feeder cattle	447	8,490
Breeding stock:		
Breeding bulls and others	80,484	85,447
Breeding goats	854	–
Dairy goats (before production of milk)	73,469	–
Total	13,409,765	13,229,908
Less: current portion classified under current assets	(447)	(8,490)
Non-current portion classified under non-current assets	13,409,318	13,221,418

The Group has engaged an independent valuer, Jones Lang LaSalle, independent qualified professional valuers which are not connected to the Group, to assist the Group in assessing the fair values of Group's biological assets. The independent valuer and the management of the Group held meetings periodically to discuss the valuation techniques and changes in market information to ensure the valuations have been performed properly. The valuation techniques used in the determination of fair values as well as the key inputs used in the valuation models are disclosed in Note 26.

## 16. TRADE RECEIVABLES

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Trade receivables	1,167,755	1,421,352
Less: Allowance for credit losses	(125,353)	(109,253)
	1,042,402	1,312,099
Trade receivables from related parties (Note 27)	988,201	917,518

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 16. TRADE RECEIVABLES *(Continued)*

The following is the aged analysis of trade receivables, net of allowance for credit losses, presented based on the dates of delivery of goods:

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Within 90 days	863,309	1,093,213
91 days to 180 days	119,240	155,196
181 days to 1 year	51,281	63,690
Over 1 year	8,572	–
	<b>1,042,402</b>	<b>1,312,099</b>

As at June 30, 2023, trade receivables from related parties are aged within 90 days based on the month of delivery.

The following is the past due analysis of the carrying amounts of trade receivables:

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Not yet past due	785,763	994,772
Past due less than 30 days	102,725	118,809
Past due more than 30 days but less than 90 days	91,523	127,386
Past due more than 90 days	62,391	71,132
	<b>1,042,402</b>	<b>1,312,099</b>

The above trade receivables which have been past due more than 90 days are not considered as in default because these trade receivables relate to a number of independent customers for whom there was no recent history of default and they have a good track record with the Group.

For trade receivables with significant balances or credit-impaired, management will assess the corresponding expected credit loss ("ECL") individually. In addition, the Group uses practical expedient in estimating ECL on the trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors by groupings of customers with similar loss patterns (i.e., by product type and customer type) taking into consideration the Group's historical default rates and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 17. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Impairment losses recognized/(reversed) in respect of:		
Trade receivables	16,261	34,802
Other receivables	1,264	(22)
	17,525	34,780

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended June 30, 2023 are the same as those followed in the preparation of the Group's annual financial statement for the year ended December 31, 2022.

## 18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30,	December 31,
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(audited)
Classified under current assets:		
Prepayments	353,527	695,531
Value-added tax recoverable	16,694	20,416
Deposits placed with brokers for commodity forward contracts	39,557	18,429
Rental receivables	9,715	8,333
Utility and other deposits	39,953	47,120
Compensation receivable	26,241	37,083
Advances to staff	2,204	1,308
Government grants receivable	–	27,338
Other receivables	5,969	8,566
	493,860	864,124
Less: Allowance for credit losses	(6,903)	(5,659)
	486,957	858,465
Classified under non-current assets:		
Pledged receivable (Note)	23,758	–
Rental receivables	5,156	–
	28,914	–

Note:

The balance represents the dividend paid by SKX to the Group through China Securities Depository and Clearing Co., Ltd.. As the Group has pledged 51.73% equity interest of SKX for certain long-term bank borrowings, the relevant dividend has been pledged and will be received by the Group upon the release of the pledged equity interest.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 19. INTERESTS IN ASSOCIATES

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Cost of investment in associates	1,098,386	1,098,386
Share of post-acquisition losses and other comprehensive expense	(62,413)	(35,531)
Exchange adjustments	131,634	93,792
	<b>1,167,607</b>	<b>1,156,647</b>

Details of each of the Group's associates at the end of the reporting period are as follows:

	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest	Proportion of voting rights held by the Group	Principal activity
Wholesome Harvest Limited ("Wholesome")	Cayman Islands	PRC	27.16%	27.16%	Raising and breeding dairy cows and raw milk production
Jiangsu Nongken Youran Dairy Co., Ltd. ("Jiangsu Nongken")	PRC	PRC	20.00%	20.00%	Raising and breeding dairy cows and raw milk production

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Negotiable certificate of deposits with certain banks, at fair value	5,602,311	1,919,338

During the current interim period, the Group invested in certain negotiable certificate of deposits with certain banks in PRC. The deposits carry fixed-interest rate which range from 3.10% to 3.35% (December 31, 2022: 3.10% to 3.35%) per annum.

The directors of the Company determine the deposits are mainly for the purpose of short-term fund management, which will be sold in the secondary market within one year, therefore the deposits are classified as current assets.

## 21. TRADE AND BILLS PAYABLES

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Trade payables	1,277,805	2,479,966
Bills payables	407,740	208,612
	1,685,545	2,688,578

The following is an aged analysis of trade payables presented based on delivery dates.

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Within 1 year	1,243,831	2,401,247
1 to 2 years	12,572	47,475
2 to 3 years	4,282	8,052
More than 3 years	17,120	23,192
	1,277,805	2,479,966

The maturity period of bills payables are normally within 1 year based on the invoice dates.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 22. OTHER PAYABLES AND ACCRUALS

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Payables for purchase of property, plant and equipment	1,052,936	1,196,639
Salaries and welfare payables	239,730	259,919
Deposits received from suppliers	160,985	177,377
Service and professional fee payables	63,764	86,559
Freight charges payables	70,596	80,401
Storage fee payables	8,769	18,681
Non-income tax related tax payables	11,325	16,766
Sundry payables and accrued expenses	52,892	55,358
Accrued listing expenses	–	1,811
	<b>1,660,997</b>	<b>1,893,511</b>

## 23. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB14,008,172,000 (six months ended June 30, 2022: RMB13,327,188,000).

The ranges of effective interest rates of the Group's borrowings are as follows:

	June 30, 2023 % (unaudited)	December 31, 2022 % (audited)
Effective interest rates:		
Floating rate borrowing	2.20 to 6.54	1.71 to 5.77
Fixed rate borrowing	2.35 to 4.00	2.35 to 4.10

Interest rate of variable-rate borrowings are determined based on the borrowing rates announced by the People's Bank of China ("PBOC") and Secured Overnight Financing Rate.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 24. CONVERTIBLE NOTES

In November 2020, several pre-IPO investors (the “Pre-IPO Investors”) entered into subscription agreements with the Company in relation to issue of convertible notes with an aggregate principal amount of USD460 million (equivalent to approximately RMB3,051 million). The convertible notes are subject to cash interest and pay-in-kind interest (the “PIK Interest”) on the outstanding principal amount at the rate of 4% per annum and 6% per annum, respectively. The cash interest is payable on the last day of each quarter in arrears commencing on December 31, 2021. The PIK Interest shall capitalize and be added into the then outstanding principal amount, whereupon PIK Interest shall accrue on the then outstanding principal amount plus any capitalized amount of PIK Interest at the same rate. Accrued and capitalized PIK Interest on any portion of the principal amount that is converted into ordinary shares of the Company shall be waived upon the completion of such conversion.

The key terms of the convertible notes are summarized as follows:

### (a) Conversion option

The Pre-IPO Investors shall have the right, but not the obligation, to convert the outstanding principal amount into such number of ordinary shares of the Company at any time subject to and in accordance with terms and conditions attached to the convertible notes. The initial conversion price upon issuance shall be USD0.44605 per ordinary share. The conversion price shall increase at a rate of 2% per annum, or 0.5% per quarter, on each interest payment date, commencing on the interest payment date immediately following the third anniversary of the issuance date.

### (b) Redemption on maturity

The convertible notes will be matured on the third anniversary of the issuance date and, at the sole discretion of the Pre-IPO Investors, may be extended to the fifth anniversary of the issuance date. Unless the entire principal amount of the convertible notes have been redeemed or converted earlier in accordance with the terms thereof, the Company shall redeem the entire outstanding principal amount of the convertible notes in full together with accrued interest. The Pre-IPO Investors may at any time after the occurrence of an event of default as stipulated in the convertible notes instruments require the Company to redeem the outstanding principal amount of the convertible notes or any portion thereof at the redemption price as defined in the convertible notes instruments.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 24. CONVERTIBLE NOTES *(Continued)*

### (c) Early redemption

Upon the expiration of the fifteenth month of the issuance date, the Pre-IPO Investors has an one-off right to require the Company to redeem all outstanding principal amounts of this convertible notes (including the outstanding principal amount plus total accrued interest calculated at 10% per annum (cash interest and PIK Interest) on the principal), or any portion thereof. The early redemption right of the convertible notes was expired in February 2022.

On November 28, 2022 and June 2, 2023, the Company and certain of the Pre-IPO Investors of the Company, entered into the supplemental letter agreements, respectively, to amend certain terms and conditions of the convertible notes. Pursuant to the supplemental letter agreements, the Company has the right to redeem partial outstanding convertible note before the maturity date. The redemption price paid by the Company was determined with reference to the principal amount of the relevant convertible notes to be redeemed, together with the applicable interest accrued thereon up to the date of the redemption. The interest applicable to the redemption is the same as provided for in the existing convertible notes, which comprises the cash interest of 4% per annum and the PIK Interest of 6% per annum. Other terms and conditions of the convertible notes remain unchanged and valid, and the remaining convertible notes will continue to be held by the respective noteholders. The Company redeemed the convertible notes in the principal amounts of USD286 million in November 2022, and further redeemed the convertible notes in the principal amounts of USD75 million in June 2023.

On May 17, 2023, the conversion price was adjusted from US\$0.44505 to US\$0.44290 per share as a result of the payment of the final dividend in respect of the year ended December 31, 2022. The details were published in the Company's announcement dated May 17, 2023.

	Liability component at amortized cost RMB'000	Convertible notes equity component RMB'000	Total RMB'000
At January 1, 2022 (audited)	2,407,292	963,384	3,370,676
Cash interest paid	(59,106)	–	(59,106)
Effective interest expense charged for the period	298,181	–	298,181
Exchange differences	135,372	–	135,372
At June 30, 2022 (unaudited)	2,781,739	963,384	3,745,123
At January 1, 2023 (audited)	1,206,200	677,081	1,883,281
Cash interest paid	(11,923)	–	(11,923)
Effective interest expense charged for the period	144,737	–	144,737
Partial redemption	(569,858)	(37,974)	(607,832)
Loss on partial redemption	918	–	918
Exchange differences	27,770	–	27,770
At June 30, 2023 (unaudited)	797,844	639,107	1,436,951

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 25. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares USD	Equivalent nominal value of ordinary shares RMB'000
<b>Authorized:</b>			
At January 1, 2022 (audited) and June 30, 2022 (unaudited), December 31, 2022 (audited) and June 30, 2023 (unaudited)	10,000,000,000	100,000	691
<b>Issued and fully paid:</b>			
At January 1, 2022 (audited) and June 30, 2022 (unaudited), December 31, 2022 (audited) and June 30, 2023 (unaudited)	3,795,404,000	37,954	251

## 26. FAIR VALUE MEASUREMENTS

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group reports its findings to the board of directors of the Company to explain the cause of fluctuations in the fair value.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

The Group's biological assets and certain financial assets are measured at fair value on a recurring basis at the end of the reporting period. The following table gives information about how the fair values of these biological assets and financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 2 and 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value hierarchy			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>As at June 30, 2023 (unaudited)</b>				
<u>Assets</u>				
Biological assets:				
Calves and heifers (Note (a))	–	–	6,120,467	6,120,467
Milkable cows (Note (b))	–	–	7,134,044	7,134,044
Feeder cattle (Note (c))	–	–	447	447
Breeding bulls and others (Note (d))	–	–	80,484	80,484
Dairy goats (before production of milk) (Note (e))	–	–	73,469	73,469
Breeding goats (Note (f))	–	–	854	854
Debt instruments at FVTOCI (Note (g))	–	1,000	–	1,000
Equity instruments at FVTOCI (Note (h))	–	–	22,349	22,349
Financial assets at FVTPL (Note (i))	–	5,602,311	–	5,602,311
	–	5,603,311	13,432,114	19,035,425

	Fair value hierarchy			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>As at December 31, 2022</b>				
<u>Assets</u>				
Biological assets:				
Calves and heifers (Note (a))	–	–	5,931,614	5,931,614
Milkable cows (Note (b))	–	–	7,204,357	7,204,357
Feeder cattle (Note (c))	–	–	8,490	8,490
Breeding bulls and others (Note (d))	–	–	85,447	85,447
Equity instruments at FVTOCI (Note (h))	–	–	28,066	28,066
Financial assets at FVTPL (Note (i))	–	1,919,338	–	1,919,338
	–	1,919,338	13,257,974	15,177,312

There were no transfers between Level 1 and 2 and there were no other transfers into or out of Level 3 during the period.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(a)	Biological assets – Calves and heifers	<p>The fair value of 14 months old heifers is determined by reference to the local market selling price.</p> <p>The fair values of calves and heifers at age group less than 14 months are determined by subtracting the estimated feeding costs required to raise the cows from their respective age at the end of the reporting period to 14 months plus the margins that would normally be required by a raiser.</p> <p>Conversely, the fair values of heifers at age group older than 14 months are determined by adding the estimated feeding costs required to raise the heifers from 14 months old to their respective age at the end of the reporting period plus the margins that would normally be required by a raiser.</p>	<p>Estimated local market selling prices of the heifers of 14 months old are RMB24,100 to RMB24,450 per head as at June 30, 2023 (December 31, 2022: RMB24,100 to RMB25,620).</p> <p>Estimated feeding costs per head plus margin that would normally be required by a raiser for calves and heifers younger than 14 months old (i.e. from born to 14 months) are ranging from RMB20,040 to RMB22,340 as at June 30, 2023 (December 31, 2022: RMB19,528 to RMB23,087).</p> <p>Estimated feeding costs per head plus margin that would normally be required by a raiser for heifers older than 14 months old are ranging from RMB15,300 to RMB16,771 as at June 30, 2023 (December 31, 2022: RMB13,611 to RMB16,862).</p>	<p>An increase in the estimated local market selling price used would result in an increase in the fair value measurement of calves and heifers, and vice versa.</p> <p>An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in an increase/decrease in the fair value measurement of calves and heifers older/younger than 14 months old, and vice versa.</p>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(b)	Biological assets – Milkable cows	The fair values of milkable cows are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such milkable cows.	<p>Estimated feed costs per kg of raw milk used in the valuation process are ranging from RMB2.61 to RMB3.43 as at June 30, 2023 (December 31, 2022: RMB2.59 to RMB3.32), based on the historical average feed costs per kg of raw milk after taking into consideration of inflation and the purchase contracts on hand.</p> <p>A milkable cow could have as many as six lactation cycles. Estimated daily milk yield at each lactation cycle is ranging from 16.83 kg to 34.98 kg as at June 30, 2023 (December 31, 2022: from 17.80 kg to 33.55 kg), depending on the number of the lactation cycles and the individual physical condition.</p> <p>Estimated local future market prices for raw milk are ranging from and RMB4,180 to RMB6,030 per ton as at June 30, 2023 (December 31, 2022: RMB4,310 to RMB5,980 per ton).</p> <p>Discount rate for estimated future cash flows used is 13% as at June 30, 2023 (December 31, 2022: 13%).</p>	<p>An increase in the estimated feed costs per kg of raw milk used would result in a decrease in the fair value measurement of the milkable cows, and vice versa.</p> <p>An increase in the estimated daily milk yield per head used would result in an increase in the fair value measurement of milkable cows, and vice versa.</p> <p>An increase in the estimated average selling price of raw milk would result in an increase in the fair value measurement of milkable cows, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of milkable cows, and vice versa.</p>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(c)	Biological assets – Feeder cattle	<p>Feeder cattle mainly includes bull calves and beef cattle.</p> <p>The fair value of 15 days bull calf is determined by reference to the local market selling price.</p> <p>The fair value of bull calves are determined by reference to the local market selling price of 15 days old bull calves and the estimated feeding costs required to raise the cows from their respective age at the end of the reporting period.</p> <p>The fair value of beef cattle is determined by reference to the local market selling price subtracting the estimated feeding costs to selling date.</p>	<p>Estimated local market selling prices of the 15 days bull calf are RMB2,909 per head as at June 30, 2023 (December 31, 2022: RMB1,998 per head).</p> <p>Estimated feeding costs per head daily for bull calves are RMB24.62 as at June 30, 2023 (December 31, 2022: RMB22.17).</p> <p>Estimated local market selling prices of the beef cattle are RMB4,680 per head as at June 30, 2023 (December 31, 2022: N/A).</p>	<p>An increase in the estimated local market selling prices of bull calf used would result in an increase in the fair value measurement of bull calves, and vice versa.</p> <p>An increase in the estimated feeding costs would normally be required by a raiser used would result in an increase/decrease in the fair value measurement of bull calves older/younger than 15 days old, and vice versa.</p> <p>An increase in the estimated local market selling prices of beef cattle used would result in an increase in the fair value measurement of beef cattle, and vice versa.</p>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(d)	Biological assets – Breeding bulls	The fair values of breeding bulls are determined by using the multi-period excess earnings method, which is based on the discounted future cash flows to be generated by such breeding bulls.	<p>The estimated feed costs per day per bull used in the valuation process are RMB51 as at June 30, 2023 (December 31, 2022: RMB53) based on the historical average feed costs per day of breeding bulls after taking into consideration of inflation and purchase contracts on hand.</p> <p>Estimated local future market prices for sex-sorting frozen bovine semen are RMB120 per straw as at June 30, 2023 (December 31, 2022: RMB112 per straw). Estimated local future market prices for conventional frozen bovine semen are RMB14 per straw as at June 30, 2023 (December 31, 2022: RMB15 per straw).</p> <p>Discount rate for estimated future cash flow used is 13% as at June 30, 2023 (December 31, 2022: 13%).</p>	<p>An increase in the estimated feed costs per day of breeding bulls used would result in a decrease in the fair value measurement of the breeding bulls, and vice versa.</p> <p>An increase in the estimated selling price of frozen bovine semen used would result in an increase in the fair value measurement of breeding bulls, and vice versa.</p> <p>An increase in the estimated discount rate used would result in a decrease in the fair value measurement of breeding bulls, and vice versa.</p>

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(e)	Biological assets – Dairy goats (before production of milk)	<p>The fair value of 8 months old dairy goats is determined by reference to the market selling price.</p> <p>The fair values of dairy goats at age group less than 8 months are determined by subtracting the estimated feeding costs required to raise the dairy goats from their respective age at the end of the reporting period to 8 months plus the margins that would normally be required by a raiser.</p> <p>Conversely, the fair values of dairy goats at age group older than 8 months are determined by adding the estimated feeding costs required to raise the dairy goats from 8 months old to their respective age at the end of the reporting period plus the margins that would normally be required by a raiser.</p>	<p>Estimated market selling prices of the dairy goats of 8 months old are RMB10,802 per head as at June 30, 2023 (December 31, 2022: N/A).</p> <p>Estimated feeding costs per head plus margin that would normally be required by a raiser for dairy goats younger than 8 months old (i.e. from born to 8 months) are RMB4,899 as at June 30, 2023 (December 31, 2022: N/A).</p> <p>Estimated feeding costs per head plus margin that would normally be required by a raiser for dairy goats older than 8 months old are RMB3,145 as at June 30, 2023 (December 31, 2022: N/A).</p>	<p>An increase in the estimated local market selling price used would result in an increase in the fair value measurement of dairy goats, and vice versa.</p> <p>An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in an increase/decrease in the fair value measurement of dairy goats older/younger than 8 months old, and vice versa.</p>



# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(f)	Biological assets – Breeding goats	<p>The fair value of 13 months old breeding goats is determined by reference to the market selling price.</p> <p>The fair values of breeding goats younger than 13 months are determined by subtracting the estimated feeding costs required to raise the breeding goats to 13 months old from their respective age at the end of the reporting period plus the margins that would normally be required by a raiser.</p>	<p>Estimated market selling prices of the breeding goats of 13 months old are RMB12,268 per head as at June 30, 2023 (December 31, 2022: N/A).</p>	<p>An increase in the estimated local market selling price used would result in an increase in the fair value measurement of breeding goats, and vice versa.</p> <p>An increase in the estimated feeding costs plus the margin that would normally be required by a raiser used would result in a decrease in the fair value measurement of breeding goats younger 13 months, and vice versa.</p>
(g)	Debt instruments at FVTOCI: Bills receivable	Discounted cash flow method was used to capture the present value of the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.	N/A	N/A

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

Notes	Assets	Valuation technique(s)	Significant unobservable input(s)	Inter-relationship between significant unobservable inputs and fair value measurements
(h)	Equity instruments at FVTOCI	Market approach	Fair value is estimated based on value of comparable listed companies and discount for lack of liquidity.	An increase in the discount for lack of liquidity would result in a decrease in the fair value measurement of the unquoted equity investments, and vice versa.  If the discount for lack of liquidity increase by 1%, the estimated fair value of equity instruments at FVTOCI will decrease by RMB171,000 as at June 30, 2023 (December 31, 2022: RMB253,000), vice versa.
(i)	Financial assets at FVTPL: Negotiable certificate of deposits	Discount cash flow method was used to capture the present value of the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.	N/A	N/A

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 26. FAIR VALUE MEASUREMENTS *(Continued)*

### Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI RMB'000	Biological assets RMB'000	Total RMB'000
At January 1, 2023 (audited)	28,066	13,229,908	13,257,974
Fair value changes during the period	(5,717)	–	(5,717)
Purchase cost	–	440,917	440,917
Feeding and other related costs	–	2,579,720	2,579,720
Decrease due to disposal/death	–	(577,813)	(577,813)
Losses arising from changes in fair value less costs to sell of biological assets	–	(2,262,967)	(2,262,967)
At June 30, 2023 (unaudited)	22,349	13,409,765	13,432,114
At January 1, 2022 (audited)	24,812	10,416,080	10,440,892
Fair value changes during the period	(168)	–	(168)
Purchase cost	–	563,687	563,687
Feeding and other related costs	–	2,012,597	2,012,597
Decrease due to disposal/death	–	(575,957)	(575,957)
Losses arising from changes in fair value less costs to sell of biological assets	–	(852,226)	(852,226)
At June 30, 2022 (unaudited)	24,644	11,564,181	11,588,825

The fair value changes for equity instruments at FVTOCI during the six months ended June 30, 2023 is reported under “investment revaluation reserve”.

### Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group considers the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair value.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 27. RELATED PARTY TRANSACTIONS

The Group had the following material transactions and balances with Inner Mongolia Yili Industrial Group Co., Ltd. (“Yili”, together with its subsidiaries, collectively “Yili Group”), a major shareholder of the Group and Jiangsu Nongken, an associate of the Group.

### Transactions with Yili Group

	Notes	Six months ended June 30,	
		2023	2022
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Sales of raw milk to Yili Group	(a)	5,978,328	5,028,566
Sales of feeds to Yili Group	(a)	75,613	51,334
Sales of ruminant farming products to Yili Group	(a)	51	144
Sales of breeding products to Yili Group	(a)	6,381	7,357
Purchase of raw materials from Yili Group	(a)	9,469	27,265
Purchase of shared financial services from Yili Group	(b)	5,339	3,864
Purchase of other service and materials from Yili Group		7,412	1,208
Other service to Yili Group	(a)	1,406	622
Interest income from Yili Group	(e)	3,437	3,103

### Transactions with Jiangsu Nongken

	Note	Six months ended June 30,	
		2023	2022
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Sales of feeds to Jiangsu Nongken	(a)	13,140	–
Sales of breeding products to Jiangsu Nongken	(a)	–	223
Sales of ruminant farming products to Jiangsu Nongken	(a)	102	–
Other service to Jiangsu Nongken	(a)	69	–

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 27. RELATED PARTY TRANSACTIONS (Continued)

### Balances with Yili Group

	Notes	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Amounts due from related parties:			
Trade receivables from Yili Group	(c)	980,697	914,047
Prepayments to Yili Group		–	18
		980,697	914,065
Amounts due to related parties:			
Trade payables to Yili Group	(d)	44,569	47,338
Deposits placed with Yili Finance Company Limited	(e)	318,700	515,895

### Balances with Jiangsu Nongken

	Note	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Amounts due from related parties:			
Trade receivables from Jiangsu Nongken	(c)	7,504	3,471
Other receivables from Jiangsu Nongken		–	32
		7,504	3,503

Notes:

- (a) The above sale and purchase transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved, and the prices are mainly determined based on prices offered to independent third parties.
- (b) The Group entered into the shared financial services agreement with Yili Group in 2022. Pursuant to the agreement, Yili Group provided accounting related shared financial services to the Group. The service fee is determined using cost-plus basis, being the total costs incurred by Yili Group in respect of the provision of the shared financial services plus a fixed percentage of 5%, to cover costs and expenses, such as personnel and maintenance.
- (c) The trade receivables are mainly related to the sale of raw milk to Yili Group and sales of feeds to Jiangsu Nongken. As at June 30, 2023, trade receivables from related parties are aged within 90 days based on the date of delivery.
- (d) The trade payables are related to the purchase of raw materials from Yili Group, which aged within one year at the end of the reporting period.
- (e) The Group entered into the financial services agreement with Yili Finance Company Limited, a subsidiary of Yili Group which has financial institution license. Pursuant to the agreement, Yili Finance Company Limited provided deposit service to the Group. The interest rates are determined according to and shall not be lower than the benchmark deposit rates prescribed by the PBOC and the deposit rates offered by the major commercial banks in the PRC.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 27. RELATED PARTY TRANSACTIONS *(Continued)*

### Settlement arrangements with Yili Group

	Notes	Six months ended June 30,	
		2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Trade receivables from the sale of feeds and breeding products settled on behalf by Yili Group	(f)	439,574	255,539
Trade payables from the purchase of raw material settled on behalf by Yili Group	(g)	430,597	–

Notes:

- (f) Certain customers (the “Overlapping Parties”) who purchase feeds and breeding products from the Group are also raw milk suppliers of Yili Group. The Group, Yili Group and the Overlapping Parties have entered into an entrusted payment arrangement (the “Entrusted Payment Arrangement”), pursuant to which Yili Group would deduct the amount payable to the Group by the Overlapping Parties (the “Feeds and Breeding Products Payments”) from the payments made to the Overlapping Parties by Yili Group, and pay the Feeds and Breeding Products Payments to the Group directly. The directors of the Company consider that the Entrusted Payment Arrangement is an industry norm in dairy farming products industry in the PRC to simplify the payment procedures.
- (g) Certain suppliers who sell feeds to the Group are also debtors of Yili Group. The Group, Yili Group and the suppliers entered into an entrusted payment arrangement, the Group would deduct the amount payables to the suppliers and pay to Yili Group to settle the debts directly.

### Compensation to key management personnel

The remuneration of key management personnel, including members of the board of directors and other members of senior management of the Group was as follows:

	Six months ended June 30,	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Salaries and allowances	3,198	3,815
Retirement benefit scheme contributions	221	182
	3,419	3,997

# Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

## 28. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	June 30, 2023 RMB'000 (unaudited)	December 31, 2022 RMB'000 (audited)
Capital expenditures in respect of acquisition of property, plant and equipment and purchase of biological assets:		
Contracted but not provided for	2,300,286	2,997,521

## 29. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liability.

## Definitions

“2022 Interim Period”	six months ended June 30, 2022
“Audit Committee”	the audit committee of the Company
“Auditor”	Deloitte Touche Tohmatsu, the auditor of the Group
“Board”	the board of Directors
“Bright Dairy”	the group of companies comprising Shanghai Bright Dairy & Food Co., Ltd. (上海光明乳業股份有限公司), a company incorporated in the PRC, and its subsidiaries, as a group being one of our customers
“China” or “PRC”	the People’s Republic of China and, for the purpose of this interim report, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“CNAS”	China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
“Company” or “our Company”	China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company with limited liability incorporated in the Cayman Islands on August 21, 2020
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of our Company
“Fonterra China Farms Group”	Tangshan Youran Dairy Co., Ltd. (formerly known as Fonterra (Yutian) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on December 14, 2010, and Shanxi Youran Tianhe Dairy Co., Ltd. (formerly known as Fonterra (Ying) Dairy Farm Co., Ltd.), a company established under the laws of the PRC on February 11, 2014, both of which were wholly-owned subsidiaries of Fonterra Group before the Fonterra Acquisition
“Fonterra Group”	Fonterra Co-operative Group Limited, a New Zealand based dairy cooperative company incorporated with limited liability under the laws of New Zealand on October 16, 2001
“Global Offering”	the Hong Kong public offering and the international offering as defined in the Prospectus
“Group”, “our Group”, “we”, “us” or “our”	the Company and its subsidiaries



## Definitions

“GTPI”	the Genome Total Performance Index, which identifies breeding bulls that excel in terms of yield, health and appearance, and selects superior breeding bulls with the best combination of desirable traits
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRSs”	International Financial Reporting Standards
“Inner Mongolia Youran”	Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司), a company established under the laws of the PRC on August 1, 2007 and a subsidiary of the Company
“Junlebao Dairy”	the group of companies comprising Shijiazhuang Junlebao Dairy Co., Ltd. (石家莊君樂寶乳業有限公司), a company incorporated in the PRC, and its subsidiaries, as a group being one of our customers
“Latest Practicable Date”	September 7, 2023, being the latest practicable date for ascertaining certain information in this interim report before its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Non-IFRSs Measures”	Non-International Financial Reporting Standards Measures
“Prospectus”	prospectus of the Company dated June 7, 2021
“Reporting Period”	six months ended June 30, 2023
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of par value US\$0.00001 each in the issued share capital of our Company
“Shareholder(s)”	holder(s) of our Share(s)

## Definitions

“SKX”	Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技术(集團)股份有限公司), a company established under the laws of the PRC and whose shares are listed on the National Equities Exchange and Quotations (stock code: 834179) which has been our subsidiary since January 8, 2020
“SOP”	Standard Operation Procedure
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TPM”	Total Productive Maintenance
“US\$” or “USD”	United States dollars, the lawful currency of the United States
“Yili”	Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company established under the laws of the PRC in June 1993 and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of our Company’s Controlling Shareholders
“Yili Group”	Yili, its subsidiaries and associates
“%”	per cent